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*Mr. McLaughlin*

# ROYAL COMMISSION

ON

## TRANSPORTATION

### HEARINGS

HELD AT

OTTAWA

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
the Court Room, Board of Transport  
Commissioners Offices, Ottawa,  
Ontario, on the 25th day of  
January, 1960.

COMMISSION

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Mr. G.S. Cumming	
Mr. H.W. Ellicott	Adviser

Mr. F.W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary







Ottawa, Ontario.  
January 25, 1960.

---On commencing at 10:00 a.m.

THE CHAIRMAN: All right gentlemen, we will come to order, please.

Mr. Frawley.

ROBERTS, JAMES MERRICK, resumed.

CROSS-EXAMINATION BY MR. FRAWLEY:

Q. Mr. Roberts, I wish you would turn to the end of our cross-examination on Friday afternoon. There was an unanswered question on page 3674. I thought I would just put that to you again.

We were discussing the consequence that there having been found that there was a conflict between the language of the Transport Act -- I notice that the reporter has Transportation Act -- the Transport Act and the Railway Act, and that you did not have to apply the one and one-third rule to agreed charges. And then I put it to you, about line 15,

"Q. Then, I put it to you that the number of open published competitive rates to the west coast went down, and the number of agreed charges to the west west coast went up?

A. We were able to put in rates and make money.

Q. And then charge the intermediate points just what the traffic would bear?

A. No, what was necessary to meet competition and move the traffic.





1  
2 Q. No, what the traffic would bear -- just  
3 as high up as the traffic would bear?"

4 And then that was not answered.

5 Now, Mr. Roberts, isn't that so, having got  
6 rid of what we regarded as the restrictive one and  
7 one-third rule, then you were able to apply rates to  
8 the intermediate points on the value of service basis?

9 A. We were able to put in competitive rates to  
10 the Pacific coast to meet competition, Mr. Frawley,  
11 and also other rates published to intermediate points  
12 to move the traffic.

13 Q. You don't mean that exactly. You were  
14 able to put in agreed charges which are a form of  
15 competitive rates?

16 A. That is correct.

17 Q. And then charge the intermediate points  
18 whatever the traffic would bear?

19 A. I would prefer to say the rates that  
20 would move the traffic -- that were necessary to move  
21 the traffic.

22 Q. I am not using this phrase "what the  
23 traffic will bear" in any sinister sense. "What the  
24 traffic will bear" -- that is a guiding principle  
25 throughout your rate-making?

26 A. You will go along with me, sir, we  
27 put in rates necessary to move the traffic.

28 Q. Necessary to move the traffic, and as  
29 high up as you could get?

30 A. We get the maximum contribution we can,







consistent with the movement of the traffic.

Q. And if you had to put in a class rate, that would do it, or if you had to put in a commodity rate, that would do it. You do not have the restriction of the one and one-third rule applying any more, and then you could charge the intermediate 800 miles charter haul; you could charge 150 per cent of the Vancouver rate or maybe 200 per cent of the Vancouver rate; just what the traffic would bear.

A. Whatever the competition conditions necessitated, Mr. Frawley.

Q. I just wanted to put the position clearly before the Commission.

And now, on page 19. Perhaps I had better take you to page 19 of your precis. That precis is the one memorandum with respect to principles of rate-making, etc.

Now, you are asking with regard to export of grain a rate that will return you full cost?

A. That is correct.

Q. Full distributed costs?

A. That is correct.

Q. And what you say is, at the second last full paragraph on page 19:

"In view of the large volume of western grain moving to export positions in relation to total traffic, it is apparent that unless a substantial burden were to be placed on other traffic or on the railways, the just and







1  
2 reasonable level must meet the total  
3 cost of transporting the grain traffic".

4 In other words, that is the just and  
5 reasonable rate, the rate which will return you full  
6 cost?

7 A. That is correct, sir, in relation to  
8 the grain traffic in western Canada.

9 Q. And even if that requires a 100 per cent  
10 increase in the existing statutory rate?

11 A. Well, I would say, sir, that that is  
12 correct, that's our submission.

13 Q. Yes?

14 A. But this is a just and reasonable basis  
15 of rates.

16 Q. And you say you must have this full  
17 cost rate unless a substantial burden is placed on  
18 other traffic, or, on the railways?

19 A. That is correct.

20 Q. Now, the other rates which are, as  
21 a result of your own action, forced upon you by  
22 economic conditions also fall far short of returning  
23 full cost; they also are placing a substantial burden  
24 on other traffic?

25 A. I wouldn't say, sir, Mr. Frawley --  
26 all other rates, no, sir.

27 Q. Yes. All of the rates which are down  
28 around the level of the Crow's Nest Pass rates  
29 returning you about 5/10ths of a cent or 6/10ths of  
30 a cent or 8/10ths of a cent per ton mile?





1  
2 A. I do not know of any other rates, Mr.  
3 Frawley, that are in that neighbourhood, unless you  
4 speak of the rates on coal, say, from Alberta to  
5 eastern Canada. They are pretty low.

6 Q. Rates on coal; rates on grain to Halifax  
7 -- surely we do not have to go all through this  
8 exhibit.

9 MR. SINCLAIR: Mr. Chairman, as I recollect,  
10 Mr. Frawley spent considerable time with two witnesses,  
11 Mr. McCoy and Mr. Roberts, on this exhibit; and my  
12 recollection may not be as clear as his -- after all  
13 he made the exhibit -- and we have not had a chance  
14 to look as it yet because they were not copied. But  
15 as I recollect it, he could only find one or two rates  
16 that were even close to 6.6 cents 0.6 cents per ton mile,  
17 and most of them that he gave reference to were 9.9  
18 cents, .84 cents, and matters of that kind which, of  
19 course, I suggest is certainly very, very far from .5  
20 cents.

21 MR. FRAWLEY: Well now, Mr. Chairman, it  
22 might be helpful -- this exhibit is here. Certainly  
23 it is true it is unfortunate it was not reproduced  
24 in sufficient copies for everybody to see it. It  
25 will be reproduced. It is now reproduced sufficient  
26 for the Commissioners to see.

27 This is Exhibit 86, and before I proceed to  
28 question Mr. Roberts any more, in view of my friend's  
29 objection, I will go through the exhibit and point  
30 out the rates which are less than one cent per ton  
mile.







1  
2 MR. SINCLAIR: Mr. Chairman, less than one  
3 cent per ton mile -- the grain rates on the average  
4 came to .5 cents. That is half of a cent. That is  
5 my point.

6 MR. FRAWLEY: If my friend will be patient,  
7 I will give it the .9, .8, .7, .6; not make it  
8 any more or any less.

9 THE CHAIRMAN: Well, pick out from the  
10 exhibit the ones you want.

11 MR. FRAWLEY: Q. .8 on page 1 of this  
12 exhibit: iron and steel articles, Montreal to  
13 Vancouver.

14 A. What is the distance?

15 Q. It is 2878.

16 A. 2878, that is right.

17 Mr. Frawley, the rate, the revenue per ton-  
18 mile which we are referring to there on statutory  
19 grain for that distance would be, even with 100 per  
20 cent increase, would be about the same.

21 THE CHAIRMAN: Perhaps when Mr. Frawley gives  
22 the figure of the rates, he could give the length of  
23 haul.

24 MR. FRAWLEY: I will give that as I go  
25 through, and I do not think it will take too long. I  
26 do not expect to go back to this exhibit, but I will,  
27 after all, in view of the position taken.

28 MR. FRAWLEY: Q. On page 1, Exhibit 86,  
29 iron and steel articles, Montreal to Vancouver, 2878  
30 miles, 8.34 cents per mile.

A. About the same as we are suggesting, Mr.





Frawley, for the statutory rates on grain.

MR. SINCLAIR: That has increased 100 per cent.

THE WITNESS: Increased 100 per cent, yes.

MR. FRAWLEY: Q. Calcium silicon, Welland, Ontario to Sydney, Nova Scotia, 1342 miles, .732 cents; wrought pipe, Montreal to Vancouver, 2878 miles, .834 cents per ton mile; iron and steel ingots, Hamilton to Sidney, 1302 miles, .823 cents per ton mile; cast iron pipe, Three Rivers to Vancouver -- that is an error. It should be Toronto to Vancouver, 3053. That is not worked out properly. I had better skip that one. Apparently the rate clerk who did this was using Three Rivers mileage and using 1/10th, or using Three Rivers. They should have used 118 as the rate, and that would give a slightly different rate per ton-mile and using Toronto, and I think the mileage there to Vancouver -- do you happen to know offhand the mileage, approximately?

A. About 2700.

(Page 3687 follows).







1  
2 Q. Well, then, that is more accurate. Then,  
3 the rate per ton mile wouldn't be .721, it would be  
4 slightly different.

5 Then, iron ore steel skelp from Hamilton,  
6 Ontario, to Port Moody, B.C., 2718 miles, .699 cents per  
7 ton mile.

8 Coal from Bienfait, Saskatchewan, to Fort  
9 Frances, Ontario, 502 miles, .653 cents per ton mile.

10 Coal, Montreal to Toronto, 335 miles, .836  
11 cents per ton mile.

12 Zinc bullion, Flin Flon, Manitoba, to Quebec,  
13 2077 miles, .953 cents per ton mile.

14 Zinc fume from Tadanac, B. C. to Montreal,  
15 2553 miles at .971 cents per ton mile.

16 Coal, Edmonton to Regina, 485 miles, .969  
17 cents per ton mile.

18 Coal, Sheerness, Alberta, to Brandon, Manitoba,  
19 612 miles, .850 cents per ton mile.

20 Common salt for export, Goderich to Halifax,  
21 1239 miles at .823 cents per ton mile.

22 Iron or steel plate, ~~terne~~ or tin, for export,  
23 Hamilton to Halifax, 1143 miles at .787 cents per ton  
24 mile.

25 Barley, corn, oats, rye, wheat, flour and grain  
26 products, ex lake for export, Port Colborne, Ontario, to  
27 Halifax, Nova Scotia, 1191 miles at .655 cents per ton  
28 mile.

29 Coke, petroleum or pitch in bags for export,  
30 Welland to Halifax, 1183 miles at .545 cents per ton  
mile.







1  
2 Grain for export, Port Arthur to Halifax,  
3 1692 miles at .632 cents per ton mile.

4 Now, I understood you on Friday to say that  
5 the reason that you felt that you should get a rate  
6 returning full cost was that it was a basic rate; as  
7 you say, the movement was basic?

8 A. That is right; it is the largest single  
9 segment of traffic we have on the Canadian Pacific  
10 system.

11 Q. ~~And you went further~~, though, and said  
12 that the plant -- it was basic to the plant?

13 A. Yes.

14 Q. And the plant was constructed for that  
15 purpose?

16 A. That is right, in that particular part of  
17 the country.

18 Q. And that is basic to the plant, and I will  
19 not go over the cross-examination that Mr. Dickson and  
20 Mr. Mauro had with you about that, but do I understand  
21 that these lines in Western Canada were built just to  
22 bring grain out for export?

23 A. They were built for all the traffic that  
24 was offering, and the major traffic that has developed,  
25 Mr. Frawley, is the export grain and the gathering  
26 system.

27 Q. That may be, but they were built, first  
28 of all, I suggest, to take the settlers in to that  
29 country?

30 A. Well, to develop the country.

Q. To develop the country for whatever was





1  
2 going to come out of it?

3 A. That is right.

4 Q. You didn't build a line out from Red Deer  
5 to Ullin in the Rocky Mountain country to bring out  
6 grain?

7 A. Well, we built it to develop the country,  
8 and, as I say, the major movement is grain for export.

9 Q. That is past talk, that is after the event,  
10 but I challenge your statement when you say the plant  
11 was built to move the grain out to the lakehead from  
12 Vancouver; it was built by the Canadian Pacific Railway  
13 pursuant to its charter to develop Western Canada.

14 A. It was built and it has since been main-  
15 tained, Mr. Frawley, particularly for the movement of  
16 grain to export positions.

17 Q. And this plant that you say is basic,  
18 those are all the branch lines in Western Canada that  
19 move grain out onto the main line?

20 A. The majority of them, yes, sir.

21 Q. And that is the plant to which the traffic  
22 is basic, to which the grain traffic is basic?

23 A. The grain traffic is basic and it is  
24 maintained and the branches are maintained primarily  
25 for that movement.

26 Q. And it is because of that that you feel  
27 you are entitled to get full cost on that traffic?

28 A. In view of the large segment of traffic  
29 involved, Mr. Frawley, yes; we feel a fair contribution  
30 is the difference between the variable cost and the full  
cost of that particular traffic.







1  
2 Q. I would like to call your attention to  
3 your traffic density map for the year 1948 and ask you  
4 to point out to me where this basic plant is and the  
5 kind of traffic density you have for which you are  
6 suggesting that you should get full costs. Will you  
7 look at this document? I will reproduce that, there  
8 may be some difficulty but I will endeavour to have  
9 it reproduced in colour, which is as it is now, because  
10 I think it is rather important for the Commission to  
11 have this traffic density map and to take a look at  
12 those branch lines which are basic and which was  
13 constructed in such a way and for such a purpose that  
14 now grain should carry full costs.

14 THE CHAIRMAN: This was ---

15 MR. SINCLAIR: Construct and maintain, the  
16 witness said. He just forgot to put that in.

17 MR. FRAWLEY: I am not going to get into an  
18 argument now. Probably I had better go over all of  
19 the branch lines in my own province and find out which  
20 ones of those branch lines were constructed for the sole  
21 and only purpose of bringing out grain.

22 MR. SINCLAIR: And maintain, Mr. Chairman.  
23 I hope that my friend is watching the conjunction "and"  
24 which the witness has put in that my friend has given  
25 him an opportunity to do so.

26 My friend has shown Mr. Roberts what he calls  
27 a density chart, I presume that is what it is, showing  
28 densities in 1948.

29 We are now dealing with the situation in 1958,  
30 some ten years later, and certainly I would think that







1  
2 a person looking at a density chart that is some ten  
3 or some years old, the changes that have taken place  
4 in Canada in those ten years would become, of course,  
5 very far off the mark, obviously.

6 THE CHAIRMAN: My recollection is that both  
7 railways filed in the Turgeon Commission density charts,  
8 did they not, the Canadian Pacific Railways and the  
9 Canadian National?

10 MR. SINCLAIR: Yes, sir. At that time, Mr.  
11 Chairman, it was decided long before the case started  
12 that we would proceed and develop density charts, be-  
13 cause it was at that time argued that Canadian National  
14 required certain relief because of light lines, rela-  
15 tively, and in answer to that the Canadian Pacific said,  
16 "You are not too different to ourselves," and a very  
17 special study was prepared and carried out to develop  
18 that as going towards that specific point.

19 THE CHAIRMAN: Was any such consideration on  
20 the part of the railways given in respect of these  
21 charts for this Commission?

22 A. No, sir, if we gave consideration we would  
23 have had to start a long time ago if we wanted this data.  
24 We gave consideration to it and came to the conclusion  
25 that it wasn't necessary and relevant to the material  
26 that was being dealt with here, and it has not been  
27 prepared because the data hasn't been prepared.

28 THE CHAIRMAN: Well, bearing that in mind,  
29 perhaps we had better let Mr. Frawley proceed.

30 MR. SINCLAIR: I want to say this before Mr.  
Frawley proceeds, that I think the evidence has made it





1  
2 abundantly clear that in regard to Canadian Pacific  
3 Mr. Stenason said, recollecting his evidence, there  
4 were some 28,000 miles of branch lines, and there was  
5 some mileage on the main line and on sidings and yard  
6 tracks, up to some 3,000 miles of the Canadian Pacific  
7 plant in Western Canada that was solely related to  
8 grain.  
9  
10  
11  
12  
13  
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16  
17  
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23  
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25  
26  
27  
28  
29  
30

(Page 3697 follows)







1  
2 Now, each of those pieces of track that  
3 were so developed had been given to my friend through  
4 the material that we have supplied to them. They  
5 have asked us for this, they have looked at other  
6 working papers, they considered them in Montreal with  
7 us - not with Mr. Roberts, of course, but with our  
8 costing people - and they have asked us to specify  
9 the things: what are the names of them, where are  
10 they. This we have done.

11 Now, that is solely related. The Commission  
12 will recall that where we had plant solely related  
13 to grain, that was part of the variable cost. Aside  
14 from that, there was this other question that because  
15 grain - and this is where this material seems to  
16 be coming somewhat confused between costing and other  
17 things - that where the traffic was of such a size,  
18 some 40 per cent, I think Mr. Edsforth started by  
19 saying that when there is that large a segment of  
20 traffic, then you would have to look upon a fair  
21 contribution as being the total cost, I think was  
22 his phrase. In our material we said it couldn't  
23 be appreciably below, in our written material filed  
24 by counsel, in our submission. It is one thing  
25 to be dealing with solely related segments of traffic -  
26 and in detail that has been supplied to my friends -  
27 and it is another thing to be talking about what  
28 is the fair contribution over variable costs in  
29 relation to the total traffic in the area, and that  
30 is what Mr. Roberts is talking about. Mr. Roberts is  
not talking about the costing technique at all;





1  
2 he is talking about what the railways should receive  
3 as a fair contribution for that kind of traffic  
4 over variable costs, and he has said that it is  
5 such a large thing that it is the difference between  
6 variable and total costs, and to put to the witness  
7 now density charts is, to my mind, completely  
8 irrelevant to what is being discussed with the witness.

9 MR. CHAIRMAN: Of course, Mr. Frawley has  
10 not yet developed what he intends to get from the  
11 witness.

12 MR. SINCLAIR: Maybe I have anticipated.

13 THE CHAIRMAN: I think so. We don't wish  
14 to restrict cross-examination. Go on, Mr. Frawley.

15 MR. FRAWLEY: Of course, if I had a 1958  
16 density map I wouldn't be offering him 1948, and  
17 it is entirely beyond my ability to produce a 1958  
18 density map, and I want to show the witness the only  
19 density map I have available, 1948. It was used  
20 before the Turgeon Commission in 1950, and it shows  
21 where this basic plant is, where this basic plant is  
22 that was being constructed and is being maintained  
23 for the grain traffic, it shows where it is, and it  
24 gives some idea whether it is light or heavy. I  
25 would undertake, and I would like it to be given an  
26 exhibit number now - it is for the Commission to  
27 ascribe its weight, and I would ask for a number to  
28 be reserved for it now, and I would therefore like to  
29 file it and I would like to discuss it now with Mr.  
30 Roberts.

THE CHAIRMAN: You want the number reserved







now?

MR. FRAWLEY: Yes. I think it might be useful, sir.

THE CHAIRMAN: What is the title of it?

MR. FRAWLEY: Canadian Pacific Freight Traffic Density Chart Corresponding to Exhibit A of Canadian National Submission, Year, 1948, Based on Gross Ton Miles (on Class contents) per Mile of Traffic per annum, and there is a legend also explaining what the colours mean.

THE CHAIRMAN: Exhibit 90.

---EXHIBIT NO. 90: Freight Traffic Density Chart Corresponding to Exhibit A of Canadian National Submission, 1948 Based on Gross Ton Miles.

MR. FRAWLEY: That is Canadian Pacific. I handed in - I am not sure that it was marked.

THE CHAIRMAN: No.

MR. FRAWLEY: Perhaps this would be a good time to mark it.

THE CHAIRMAN: It could be reserved with 90.

MR. FRAWLEY: Let's call it 91. I will send it out to Edmonton and have it reproduced.

MR. COOPER: No. 90 is the Traffic Density Map for 1948.

MR. SINCLAIR: On gross ton miles.

THE CHAIRMAN: Plus the C.N.R. one, too.

MR. FRAWLEY: Well, we will give them separate numbers. The Canadian National one could





1  
2 be marked as Exhibit 91.

3 MR. COOPER: Mr. Frawley, would you indicate  
4 to the reporter the accurate description of Exhibit  
5 91.

6 MR. FRAWLEY: Well, I haven't got it now,  
7 but it is a Canadian National Railways Freight  
8 Traffic Density Chart for the year 1948, and I think  
9 that will be sufficient.

10 MR. SINCLAIR: On gross ton miles. I  
11 think that is important.

12 ---EXHIBIT NO. 91: Canadian National Railways Freight  
13 Traffic Density Chart for the  
14 year 1948 based on Gross Ton  
15 Miles.

16 MR. FRAWLEY: Q. Now, Mr. Roberts,  
17 coming out to the Province of Alberta, you find  
18 some red lines, some red marked branch lines, and  
19 some yellow and some green, and the legend explains  
20 that the green lines, the railway tracks shown in  
21 green, are in excess of 1,500,000 gross ton-miles  
22 per mile of track per annum. The yellow track, desig-  
23 nated yellow is described as between 1,500,000  
24 and 250 thousand gross ton-miles per mile of track  
25 per annum; and, finally, track per annum; and,  
26 finally, the red lines show below 250 thousand gross  
27 ton-miles per mile of track per annum.

28 THE CHAIRMAN: Mr. Sinclair, you were on  
29 your feet.

30 MR. SINCLAIR: I was going to let my  
friend - as you say, not anticipate how he is going to







1  
2 phrase his question. I notice he is thinking about  
3 how he is going to phrase it, so I think I had better  
4 let him.

5 MR. FRAWLEY: Q. Now, Mr. Roberts, anyway,  
6 could you reproduce that map identically as it is  
7 shown there for the year 1958?

8 A. I don't know, sir, whether it could  
9 be reproduced or not.

10 MR. SINCLAIR: I have just told my friend  
11 in answer to the Commission that we don't have it.

12 THE CHAIRMAN: Do you have a study which  
13 would allow you to do that?

14 MR. SINCLAIR: The answer is no. Is Mr.  
15 Frawley expecting the witness to say that what I  
16 had informed the Commission is wrong?

17 MR. FRAWLEY: Without a special study the  
18 Canadian Pacific cannot reproduce a similar map. I  
19 am not saying any more about it.

20 Q. Mr. Roberts, do you happen to have the  
21 effective rate from Calgary to Vancouver just prior  
22 to the General Order 448 of 12 September, 1927?  
23 It is the rate just before the Crow basis was applied  
24 westbound. If you haven't got it now, it could be  
25 put in sometime later.

26 MR. SINCLAIR: Mr. Edsforth - did he give  
27 it in his evidence, do you know? He did not. Very  
28 well, we will look it up and put it in later.

29 MR. FRAWLEY: Mr. Roberts, what has been  
30 the accumulative percentage increase in the level  
of rates on domestic grain in western Canada since the





1  
2 first post-war increase?

3 A. Ninety per cent.

4 Q. So that you are asking that the export  
5 grain rate be increased in one step by more than the  
6 total of the increases applied to domestic grain since  
7 1948?

8 A. That is because, Mr. Frawley, it has  
9 not been treated, the statutory rates on grain have  
10 not been treated by any of the post-war increases.  
11 As a matter of fact, the domestic grain rates were  
12 not increased subject to any of the general increases  
13 from 1948 to 1952, and then the Board applied an  
14 increase at that time. It has been subjected to the  
15 general revenue increases since 1952, and it is still  
16 under investigation by the Board.

17 Q. In any event, what you are saying is  
18 that domestic grain went up about 90 per cent since  
19 1948, and now you are asking to pick up the export  
20 grain revenue and double that, increase that by 100  
21 per cent.

22 A. That is what we consider a fair and  
23 reasonable basis, yes, sir, and the domestic grain  
24 rate is still not settled.

25 Q. When a train leaves Calgary on the way  
26 to Vancouver and one car is destined ultimately for  
27 export and the car immediately behind it is ultimately  
28 destined for Buckersfield, we will say, and going  
29 into domestic consumption out there, there isn't any  
30 difference in moving those two cars.

A. Don't get me into cost. There is a







1  
2 difference insofar as the grain is concerned, because  
3 the car going to Buckersfield is for the domestic  
4 market in Vancouver; the car that is going to the  
5 export elevator, that is only a part of the total  
6 transportation charge, and you have to remember that  
7 that grain is going to move out of that export  
8 elevator into the foreign market, the United Kingdom,  
9 Japan, India, in competition with grain first grown  
10 in Australia, in India and in the Argentine.

11 Q. I simply asked you whether or not,  
12 from what little you know about cost, whether the  
13 second car behind the export grain car, the domestic  
14 grain car, you would have laid out any more money to  
15 move the domestic car from Calgary to Vancouver than  
16 you laid out to move the export car from Calgary to  
17 Vancouver.

18 A. You would have to ask a costing man.

19 MR. SINCLAIR: If it is going to the same  
20 elevator as the export traffic and it moves the  
21 same distance and it starts at the same place and  
22 gets the same kind of movements, the answer on behalf  
23 of Canadian Pacific is that there would be no  
24 difference. It has been considered by the Supreme  
25 Court of Canada in the case of British Columbia versus  
26 the Canadian Pacific et al, in which case the Supreme  
27 Court just this last year decided was proper and  
28 correct the way we were rating the grain that was  
29 moving in the domestic service in the west coast.

30 THE CHAIRMAN: Do you have the citation,  
31 Mr. Sinclair?





1  
2 MR. SINCLAIR: Yes, I put it in when Mr.  
3 Roberts was giving his evidence in chief. It is  
4 there, sir.

5 MR. FRAWLEY: Mr. Chairman, in view of  
6 the distinction which my friend Mr. Sinclair was  
7 drawing between the traffic density chart which I  
8 was discussing a moment ago with Mr. Roberts, Exhibit  
9 No. 90, and calling attention to the fact that it  
10 was based on gross ton-miles, I just want to say that  
11 the Commission will find at page 2 of the submission  
12 of the Canadian Pacific Railway Company to the Royal  
13 Commission on Transport, that is the first Turgeon  
14 Commission, in the Appendix to Part I, a Traffic  
15 Density Chart entitled: "Canadian Pacific Railway  
16 Company. Freight Traffic Density, 1948. Traffic  
17 Density is shown by figures in fine lines in units  
18 of 100 thousand net ton- miles of revenue and non-  
19 revenue freight in mile of road in directions  
20 indicated by arrows".

21 I ask the Commission and Commission staff  
22 to have access to that, or, to direct the Canadian  
23 Pacific to reproduce that chart if the Commission so  
24 wished.

25 MR. SINCLAIR: Why should we produce it?

26 MR. FRAWLEY: It is better to get it on the  
27 record now. You ridiculed gross ton miles.

28 MR. SINCLAIR: I wasn't ridiculing. This  
29 one wasn't gross ton-miles. The conversion of  
30 revenue to gross ton-miles is all explained in a  
very voluminous record some ten or twelve years ago.







1  
2 MR. FRAWLEY: Q. Mr. Roberts, you were  
3 calling attention in your precis to the difference  
4 between the United States rates to move grain to  
5 export and the Canadian rates to move grain to export.

6 A. Yes, sir.

7 Q. And the American wheat you were calling  
8 attention to was spring wheat?

9 A. I don't know what kind of wheat, but  
10 it is wheat moving into export positions.

11 Q. I suggest to you that American spring  
12 wheat has not been priced on an export basis for  
13 twenty-five years.

14 MR. SINCLAIR: There are lots of wheat  
15 besides this.

16 MR. FRAWLEY: Q. Now, Mr. Roberts, can  
17 you tell me how you are going to obtain your  
18 increases if your proposal is accepted? How are  
19 the horizontal percentage increases that are granted  
20 from time to time by the Board of Transport  
21 Commissioners as a result of increased costs - how  
22 are you going to get those increases from your  
23 export grain traffic?

24 A. We would apply to the Board for a  
25 general increase.

26 Q. And then you would get an increase, an  
27 across the board increase of, say, 15 per cent. There  
28 is one pending.

29 A. Depending on what is required to  
30 meet our costs, Mr. Frawley.

Q. Suppose there was an increase of 15





1  
2 per cent, then you expect that 15 per cent increase  
3 to apply on the export grain traffic?

4 A. Well, the cost of hauling that has  
5 gone up along with the cost of hauling other traffic.

6 Q. Where would you get it? - because  
7 you have made it plain that these are going to  
8 be left under Parliamentary control and the farmer is  
9 not going to pay this increased cost.

10 A. There would be no difference, in our  
11 submission, as compared to what we do now, when,  
12 due to increased costs, we require additional revenue.

13 Q. Would you expect the federal government  
14 to pay the 15 per cent increase, or whatever it was?

15 A. Well, whatever was approved by  
16 Parliament, Mr. Frawley, should our submission go  
17 through.

18 Q. And do you really think that the  
19 government of Canada would pay that increase,  
20 full horizontal percentage increase on  
21 the export grain when you were only able to get about  
22 1 per cent increase on your agreed charges? Do  
23 you think that the federal government would take  
24 kindly to this?

25 A. Mr. Frawley, I wouldn't presume to  
26 think for Parliament. I mean, that is their job.  
27 They would have to assess the situation. But the  
28 fact remains that while you only get part of your  
29 increase from your agreed charges, since that time  
30 we have been able, through negotiations, to obtain  
increases on a number of other agreed charges.







1  
2 Q. And you don't think it would disturb  
3 the government of Canada at all that they would pay  
4 out 15 per cent increase on a full cost rate and  
5 stand by and see a less than cost rate on an agreed  
6 charge get no increase at all?

7 A I think they would meet the situation  
8 realistically. They realize that these rates,  
9 the trans-continental rates, are in there to assist  
10 Canadian industry to meet the competition from  
11 outside.  
12

13 (Page 3712 follows)  
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1  
2 Q. Well, I just want to understand, then.  
3 That is, really, what you expect the Government of Canada  
4 to do -- to go on paying the increases that you can  
5 show on this full cost for export grain rate, even though  
6 you could not show any substantial increase on other  
7 less than full cost rates, such as your export-import  
8 traffic and your agreed charges?

9 A. Mr. Frawley, Parliament will be judged  
10 by the situation as it is then.

11 Q. Perhaps you would expect Parliament and  
12 the Government of Canada to get a little tired of the  
13 whole thing and send it back to the Board of Transport  
14 Commissioners?

15 A. Again, Mr. Frawley, I cannot say what  
16 Parliament might do in the future.

17 Q. Mr. Roberts, I want to show you a document  
18 which was filed by the Canadian Pacific Railway during  
19 the time of the Sloan inquiry into, I think it was  
20 called, an arbitration in connection with a wage dispute.

21 It appears in the Labour Gazette of January  
22 1955, and I have a coloured reproduction of the chart.  
23 It is called "Contribution to Overhead by Commodity  
24 Groups, 1952". Do you recognize that?

25 A. I understand what it covers, I think.

26 Q. You understand what that is?

27 A. Yes.

28 MR. FRAWLEY: I offer it as an exhibit, Mr.  
29 Chairman. I am going to get some extra copies of The  
30 Labour Gazette and perhaps it might be well if I pro-  
duced that in colour. It is a little more effective







1  
2 in colour. And this, Mr. Chairman, indicates that  
3 Canadian Pacific is quite able to reproduce a chart  
4 which shows the contribution to overhead by commodity  
5 groups, the groups being grain and grain products, other  
6 agricultural products, animals and animal products,  
7 mine products, forest products, manufacturing and mis-  
8 cellaneous.

9 ---EXHIBIT NO. 92: Document: "Canadian Pacific  
10 Railway Company, Contribution  
11 to Overhead by Commodity Groups,  
12 year 1952."

13 MR. SINCLAIR: Well, Mr. Chairman, I would  
14 just like to say here that I am very glad Mr. Frawley  
15 has finally come to realities in regard to the grouping  
16 of commodities for a contribution to overhead costs.  
17 This is exactly what I said some days ago we were pre-  
pared to do and which my friend said he did not want to  
have anything to do with.

18 I am very glad he brought this to the attention  
19 of the Commission. This is what I call the big groups.  
20 This is exactly what I said we could do when he was  
21 asking for 264 and a lot of other things. Now, I am  
22 very happy to have it here, because I did not want to  
23 bring it out myself in view of my friend's refusal, but  
24 I am glad he has done so. And if my friend then wants  
25 to say that will satisfy him, that satisfies the motion,  
26 I take it, and I will be prepared to undertake to produce  
27 it.

28 MR. FRAWLEY: I am certainly going to speak to  
29 it at the motion. There is a very old expression which  
30 says "Great oaks from little acorns grow," and if they





1  
2 are able to show what is the contribution to overhead  
3 by commodity groups and taking as one mine products,  
4 then they are able to show what the coal contributes,  
5 what the zinc and the lead contribute, what the gold  
6 or what all the other mine products contribute, and if  
7 they are able to show that manufacturing and miscel-  
8 laneous contribute 84-something per cent to overhead,  
9 then they are able to show what various categories  
10 making up the general item of manufacturing and mis-  
11 cellaneous are, and I may tell my friend right now  
12 that I certainly would not be satisfied for the purpose  
13 of my consultants to use that chart which I am now  
14 showing and I am only putting it in to indicate the  
15 facility with which the Canadian Pacific can produce  
16 that kind of information, and I will ask the Commission  
17 when we get to the argument on the motion. I only  
18 wanted to get it identified and accepted by the witness,  
19 and that has been done.

20 MR. SINCLAIR: Apparently we are going to  
21 argue at a later time. All I can say is that I hope  
22 this record is out because I think Mr. Frawley has  
23 adequately demonstrated by his remarks that he is a  
24 very much better lawyer than he is a statistician.

25 MR. FRAWLEY: Thank you, Mr. Roberts.

26 THE CHAIRMAN: Any other ---

27 MR. SINCLAIR: Well, Mr. Chairman, my friend  
28 Mr. Blair from British Columbia is detained in another  
29 place. Mr. Brazier my friend from British Columbia  
30 is, of course, as we know, ill. Notwithstanding the  
efforts of Mr. Blair to rearrange his commitments in







1  
2 view of the request that was made of him by Mr.  
3 Brazier, he has been unable to do so and therefore  
4 Mr. Blair, on behalf of his clients, that is, British  
5 Columbia, has some questions for Mr. Roberts.

6 My suggestion would be that I have a few  
7 questions in re-examination -- that I finish those up --  
8 and then at some convenient time, convenient, that is,  
9 to the Commission and Mr. Blair, and the situation  
10 being discussed with the Commission counsel Mr. Cooper,  
11 we arranged a time so that Mr. Blair on behalf of his  
12 clients may be able to do what he is instructed to do.

13 THE CHAIRMAN: We understand the situation.  
14 Now, I am sure counsel will be able to arrange that  
15 so that British Columbia will be properly on the record.

16 MR. SINCLAIR: With your permission, sir,  
17 then, I would proceed with my re-examination.

18 THE CHAIRMAN: Yes.

19 MR. SINCLAIR: I take it, sir, in light of  
20 this, that any question I may have in re-examination  
21 arising out of Mr. Blair's examination can be taken at  
22 that time and certain people who are known to be tech-  
23 nical will not say, "Here, we have another . . ." ---

24 THE CHAIRMAN: We will wipe out technicali-  
25 ties. There may be some questions from Mr. Wood?

26 MR. WOOD: We indicated on Friday we had  
27 none.

28 THE CHAIRMAN: And has anybody else any  
29 further questions? There are some questions from the  
30 Commission, before you re-examine, Mr. Sinclair.

MR. SINCLAIR: My suggestion, sir, was possibly





1  
2 they would want to wait until Mr. Blair was through.

3 THE CHAIRMAN: Well, we are not going to  
4 re-examine again.

5 MR. SINCLAIR: That's right.

6 Now, Mr. Chairman, through the courtesy of my  
7 friend Mr. Mauro I was allowed to look at a document  
8 that he found among the documents of the Interstate  
9 Commerce Commission and which he referred to in Volume  
10 25. I am making reference to Volume 25, page 3578.  
11 This was a document of the Interstate Commerce Commission  
12 entitled, "Freight revenue and wholesale value at  
13 destination of commodities transported by Class 1  
14 railroads."

15 He took that document and made certain relation-  
16 ships in regard to grain, and then he compared that with  
17 certain relationships that he had built from the Waybill  
18 Analysis in Canada on prices for grain that he got out  
19 of the newspaper..

20 Now, I take the position, Mr. Chairman, that  
21 we, from experience, approach these ICC documents with a  
22 great deal of caution, because they are subject to many  
23 disabilities that were often indicated right in them,  
24 and I made that point on page 3579. And Mr. Mauro  
25 said that he thought, and I am quoting him:

26 "I thought it was an interesting statistic."  
27 Now, referring to that same document, I first want ---

28 THE CHAIRMAN: The document is in evidence?

29 MR. SINCLAIR: Oh, no. It is quite a long  
30 document with a lot of tables, and I am using with my  
friend's permission the copy that he had, and I am just







1  
2 going to read from part of that document from which he  
3 took his figures.

4 THE CHAIRMAN: You have a copy of the docu-  
5 ment there to check?

6 MR. SINCLAIR: I will let him read along  
7 with me.

8 Right across from the table from which he  
9 took his interesting statistics is this statement:

10 "Data presented herein cannot properly  
11 be used to indicate whether freight rates are  
12 too high or too low as an indication of the  
13 reasonableness of rates or whether value  
14 should be considered as a controlling factor  
15 in connection with the determination of rates."  
16 That is the first point.

17 MR. MAURO: So that it is completely clear,  
18 and I know my learned friend did not misunderstand the  
19 purpose of the submission -- the matter was introduced  
20 since the witness on behalf of the C.P.R. had introduced  
21 evidence comparing Canadian rates on grain with what  
22 he referred to as a parallel situation in the United  
23 States. I was advancing the value of the commodity  
24 and the return to the American railroad and our figures  
25 showed that the American railroad, coincidentally,  
26 received 8.2 per cent on the price of wheat at Duluth,  
27 and that the C.P.R. was receiving approximately 3.81  
28 per cent. I was not suggesting it was a basis, any  
29 more than my learned friend is suggesting the other  
30 bases are the final rates.

THE CHAIRMAN: I think you said it was an





1  
2 interesting statistic.

3 MR. SINCLAIR: It is an interesting statistic.  
4 I am glad my friend carried it as far as he has, be-  
5 cause this document makes another point. This is at  
6 page 5 of this document, third paragraph. This shows  
7 why it cannot even be used for what my friend just said  
8 he thought it could be used for. Here it says:

9 "On the other hand, there are some instances  
10 in which tons originating are under report which  
11 could result in an understatement of the total  
12 destination value. The possible effects of  
13 such reporting practices should be considered  
14 in using the data shown."

15 It also states:

16 "To the extent . . ."  
17 and this is important -- also on page 5, referring  
18 to duplication:

19 "To the extent that there are duplications  
20 in the railroad reports of tons originating,  
21 the destination value derived as explained  
22 presently is overstated. Examples of these  
23 duplications are two or more counts on  
24 transit commodities, such as grain."

25 In contrast to that, Mr. Chairman ---

26 MR. MAURO: Would you read that last  
27 sentence again, please?

28 MR. SINCLAIR: My friend wants me to read  
29 again paragraph 5:

30 "To the extent that there are dupli-  
cations in the railroad reports of tons  
originating, the destination value derived  
as explained presently is overstated."







1  
2 MR. MAURO: That means overstated at Duluth?

3 MR. SINCLAIR: Mr. Chairman, my friend  
4 seems to think that is in his favour. All I am saying  
5 is that obviously this document is saying, don't take  
6 these figures on face value.

7 You will recall, Mr. Chairman, -- and this  
8 is the danger of these things -- you will recall that  
9 it was necessary in the evidence, it has been explained,  
10 to make a most careful count of transit and that  
11 actual field work was required. Another point that  
12 is made clear here is there is no adjustment for ab-  
13 sorptions and corrections, undercharges, overcharges,  
14 no tariff checks against rates. That, again, is  
15 recorded in the ICC.

16 Another point that is made -- and this is at  
17 page 6 -- is that this is based on the one per cent  
18 sample. And what my friend has done, he has worked a  
19 one per cent sample as against the total concise  
20 individual study, in great precision, of a whole  
21 movement. What my friend has done, in effect, is  
22 multiplied a one per same sample by one hundred.

23 THE CHAIRMAN: I do not think, Mr. Sinclair,  
24 that Mr. Mauro intended this to be produced in this  
25 way; but, as he submitted the information, this Com-  
26 mission will decide what weight should be given to it,  
27 considering the purposes.

28 MR. MAURO: As a matter of argument, if we  
29 wish to speak as to the weight, that will be a matter  
30 of argument.

MR. SINCLAIR: Very well, Mr. Chairman.





RE-EXAMINATION BY MR. SINCLAIR:

Q. Now, my friend Mr. Cumming, Mr. Roberts, asked you certain questions for the assistance of the Commission, at Volume 24, page 3436. He was asking you certain questions about the limitation of the Board's jurisdiction with regard to agreed charges. Similarly, other of my learned friends have dealt with this matter, and it seemed to me that the indication that you gave in your answer was that the limit of the Board's authority was with reference to complaints filed with the Governor in Council, and I thought that you should be given the opportunity of telling the Commission what you had in mind when you made that answer?

A. Well, sir, I referred to complaints to the Governor in Council. But, in addition to that, of course, all agreed charges that are issued have to be filed with the Board and the Board is required to satisfy itself that the agreed charge is published in pursuance of the terms of the Transport Act.

Q. Yes?

A. In addition to that, a shipper, if he feels that he is being unjustly discriminated against, may ask for a fixed charge relating to an agreed charge; and if, after investigation, the Board finds merit in his application, they can fix a charge.

Q. The Board does that?

A. Yes.

Q. And, specifically, what does the Board do if a complaint is made to the Governor in Council and there is a reference from the Governor in Council?







1  
2 A. Well, the Board has to investigate the  
3 basis for the complaint to the Governor in Council;  
4 whether it be a just discrimination against the public  
5 interest, or that the complainant is being hurt, and  
6 satisfy themselves in all respects with regard to these  
7 features, and may vary the agreed charge as they see  
8 fit.

9 Q. To continue on, just so that I do not  
10 have to do this in extenso, would your answer in that  
11 regard have application to the questions put to you  
12 by Mr. Frawley this morning with regard to agreed  
13 charges at the Pacific coast in relation to higher  
14 rates on intermediate points where the competition  
15 did not exist?

16 A. Yes, sir, because we do consider it in  
17 relation to the public interest.

18 MR. SINCLAIR: Mr. Chairman, for the assis-  
19 tance of the Commission, I would like to read Section  
20 32, subsection (4) of the Transport Act as amended in  
21 1955, which provides:

22 "If the Board after a hearing finds that  
23 the agreed charge is undesirable in the public  
24 interest on the ground that it is unjustly  
25 discriminatory against any person complaining  
26 against it or places his business or any  
27 other form of transportation services at an  
28 unfair disadvantage or on any other ground,  
29 the Board may make an Order varying or cancel-  
30 ling the agreed charge or such other Order as  
in the circumstances it considers proper."





1  
2 MR. FRAWLEY: That is after you have convinced  
3 the Governor in Council to refer it to the Board.

4 MR. SINCLAIR: Well, Mr. Chairman, I do not  
5 know who can convince -- if Mr. Frawley convinces us  
6 that he has a complaint with respect to having inter-  
7 mediate points pay higher transportation charges when  
8 the agreed charge is to meet specific competition at  
9 the Pacific Coast.

10 MR. FRAWLEY: What has it got to do with the  
11 rate at the intermediate points? Nothing in the  
12 world. That has to do with agreed charges. And if  
13 you think a certain agreed charge is contrary to the  
14 public interest, you petition the Governor in Council.  
15 If he is convinced, after conferring with the Minister  
16 of Transport, and whatever the machinery is, that  
17 this agreed charge is contrary to the public interest,  
18 then he refers it to the Board for investigation.  
19 Then, and only then, do these words that my friend  
20 read come into play.

21 THE CHAIRMAN: Report to the Governor in  
22 Council first.

23 MR. SINCLAIR: You go to the Governor in  
24 Council first.

25 THE CHAIRMAN: We will now recess.

26 ---Short recess.

27  
28  
29  
30 (Page 3728 follows)







1  
2 Q. Mr. Roberts, during the examination  
3 by my friend Mr. Cumming, Volume 24, at page 3451,  
4 he was discussing with you the relationships to an  
5 eighth class on western grain and the purport of  
6 his questioning was whether there was any predetermined  
7 or preconceived percentage relationship with respect  
8 to grain movements in eighth class, and your answer  
9 was that these were set out as a matter of business  
10 principles, and when you gave that answer I think it  
11 is clear that you were dealing with 1899. I  
12 thought that you should be given an opportunity,  
13 if the Commission would agree, to say whether there  
14 has been a relationship fixed by the Board with  
15 respect to any western grain rates, the eighth class,  
16 over the years.

17 A. Well, the Board in the western rate  
18 case, Mr. Sinclair, did prescribe a new scale of  
19 rates on domestic grain in western Canada, and the  
20 relationship which existed at that time in that  
21 scale was 66 and 2/3rds per cent, the eighth class  
22 rate.

23 Q. What year was that?

24 A. That was in 1914.

25 Q. Let us take Winnipeg, which is the  
26 key point, what is the relationship to eighth class  
27 today on the domestic scale, and taking into account -  
28 so that you don't have to repeat what you said  
29 about domestic scale - your evidence was that you  
30 were looking for a further upward adjustment arising  
out of equalization, and taking Winnipeg, what is





1  
2 the relationship?

3 A. The relationship at the present time  
4 to the existing column 30, which is the same as the  
5 eighth class rate at Winnipeg, would be 62 per cent.

6 Q. Sixty-two per cent. Then, at  
7 Volume 24 again where my friend Mr. Cumming was still  
8 examining you, for the clarification of your  
9 evidence for the benefit of the Commission and all of  
10 us, you make reference - it starts at page 3452 and  
11 goes over to the next page.

12 Now, he made reference to movements of  
13 grain over long distances, and that was crossing the  
14 break point, which you will recall on the main line  
15 was at Maple Creek, where Canadian Pacific has grain  
16 moving to Fort William, as against grain moving to  
17 Vancouver, and you made reference to the reaching  
18 out of millers into Alberta for grain, and the  
19 fact that there was movement of some degree across  
20 the break point into Fort William.

21 Now, it seems to me, and I hope the  
22 Commission will agree, so that the whole picture may  
23 be put on the record, I would like to ask you whether  
24 there is a movement from east of the break point  
25 in the opposite direction; that is, westbound? Is  
26 there a movement from east of the break point to east  
27 of Maple Creek to the Pacific Coast?

28 A. Yes, there is.

29 Q. For export?

30 A. For export, yes sir, Mr. Sinclair.

As a matter of fact, only recently we amended







1  
2 our tariff, naming the rates on grain and grain  
3 products to Vancouver for export to include a  
4 number of stations in Manitoba, and that was done  
5 at the request of the United Grain Growers.

6 Q. Now, my next note, Mr. Chairman, has  
7 to do - and these are not necessarily in order with  
8 the way the evidence was presented, of course, but  
9 Mr. Frawley in Volume 25, page 3636 - at least, that  
10 is my note, I didn't get this transcript until last  
11 night - it is page 3636. There he was dealing with  
12 an exhibit that he had introduced into these  
13 proceedings, known as Exhibit 52, and at page 3637  
14 of Volume 25 you said to him that you didn't think  
15 his exhibit was correct; this is the exhibit that  
16 he uses in his suggestion that it shows imbalance.

17 A. Yes.

18 Q. And he, of course, had further  
19 reference to this again this morning in some of  
20 his questions to you. Now, when you said, "I don't  
21 think it is a correct statement," - I think that  
22 is a quotation from page 3637 - what did you mean  
23 by that?

24 MR. FRAWLEY: I think you should read the  
25 whole answer, Mr. Sinclair. He explains why he  
26 doesn't think it is correct at page 3637.

27 MR. SINCLAIR: I think the witness should  
28 be given an opportunity to say whether ---

29 MR. FRAWLEY: I don't think you should take  
30 one sentence out of his answer.

MR. SINCLAIR: I will read it all.





1  
2 MR. FRAWLEY: "I don't think that is a  
3 correct statement. You have traffic moving at  
4 international and overhead rates from which we have  
5 obtained the increases authorized by the Interstate  
6 Commerce Commission and our own Board of Transport  
7 Commissioners over the years. Q. And from which  
8 you did not get one cent to enable you to pay the  
9 wage award which immediately preceded the 17 per  
10 cent Case? A. We had increases before that."  
And so on.

11 MR. SINCLAIR: Q. Mr. Roberts, in the light  
12 of your answer to Mr. Frawley that you didn't think  
13 that it was correct, you made reference to international  
14 rates; was that the only reason you had in mind when  
15 you gave the answer that you didn't think it was  
16 correct?

17 A. No sir, because there are - increases  
18 have been applied right along on coal rates, for  
19 example, Mr. Sinclair.

20 Q. Yes?

21 A. And we have had increases in competitive  
22 rates and, of course, while our exhibit didn't show  
23 it at that time to the extent that we have been  
24 successful, our exhibit indicated the revenue we may  
25 get in from agreed charges that carried the escalator  
26 clause, but since then we have been successful in  
negotiating increases in a number of agreed charges.

27 Q. Yes. Anything else?

28 MR. FRAWLEY: I am sorry, but I must  
29 interrupt my friend. I was talking about exhibit 52,  
30







1  
2 which has its place in these proceedings, and makes  
3 no reference to what they did after the date of  
4 the exhibit, that is all. It is not germane to  
5 my question.

6 THE CHAIRMAN: All that Mr. Sinclair is  
7 doing is challenging exhibit 52, as I understand it.

8 MR. FRAWLEY: That is right. Now, this  
9 is not challenging exhibit 52, this is not re-  
10 examination on exhibit 52; he is going on to  
11 discuss events subsequent to 1952.

12 MR. SINCLAIR: Q. All right, Mr. Chairman.  
13 May I be permitted to challenge it directly and  
14 by putting it right to the witness this way: Mr.  
15 Roberts, at my suggestion, so that this Commission  
16 could see the position clearly, have you recast  
17 exhibit 52 in the manner which you think shows its  
18 proper relationship to the rate structure.

19 A. I have, Mr. Sinclair.

20 Q. By groups of traffic?

21 A. I have.

22 Q. Will you turn to that, please.

23 THE CHAIRMAN: Is this a new exhibit now?

24 MR. SINCLAIR: Yes, I would like to put  
25 this in as Exhibit No. 52-A.

26 MR. FRAWLEY: I will certainly object to  
27 that; it has nothing to do with exhibit 52. Let  
28 it take its place, and I respectfully submit it  
29 should be among the nineties.

30 MR. SINCLAIR: I anticipated my friend's  
objection, so that the second page of the exhibit is





52, so that it is altogether, anyway. What is the number, please, Mr. Cooper?

MR. COOPER: It will be Exhibit No. 93.

MR. SINCLAIR: Exhibit 93.

---EXHIBIT NO. 93: Canadian Pacific revenue from "All other freight traffic" and estimated revenues. (4 pages).

MR. COOPER: Will you give an exact description of it?

MR. SINCLAIR: It is a document entitled, "Canadian Pacific Railway, Percent Revenue from 'All other freight traffic' of Total Freight Revenue." The document consists of four pages.

Page 1 is a summary statement. Page 2 is a reproduction of the Exhibit No. 52 as filed by Mr. Frawley in Volume 13, page 1732, and it shows that on its face. Page 3 is Exhibit 52 including international, overhead, import - export and other related rates on which U.S. rate increases apply. Page 4 is a further re-statement to reflect 100 per cent increase in statutory and related rates on grain and grain products, and I wish to submit that to the Commission. We have a few extra copies, and I will undertake to see that my friends have copies. We have just typed this one out, but the process is here to duplicate them in large measure.

THE CHAIRMAN: Do you have one for Mr. Frawley?

MR. SINCLAIR: Yes, I certainly have, and







1  
2 I have one for ---

3 THE CHAIRMAN: You have one for Mr. Mauro?

4 MR. SINCLAIR: Yes, I have one for Mr. Mauro  
5 and one for Mr. Dickson and I have one for Mr.  
6 Doherty, and we will undertake to make another ten  
7 so that they can get to the Commission.

8 Q. And now, looking at this exhibit 93  
9 and first looking at sheet 1, Mr. Roberts, would you  
10 just indicate to the Commission what you think the  
11 significant figure there is.

12 A. The significant figure, Mr. Sinclair,  
13 is the figure indicated opposite statement No. 3;  
14 in other words, the statement has been restated to  
15 reflect 100 per cent increase in statutory and  
16 related rates on grain and grain products in western  
17 Canada, and on that basis as proposed by the Canadian  
18 Pacific Railway, and on that basis the percentage  
19 relationship to the total is 63.69 per cent.

20 Q. Instead of 32.03?

21 A. Yes.

22 Q. And does that percentage reflect an  
23 exclusion of the international export-import related  
24 traffic also?

25 A. It does, sir.

26 Q. Looking at statements on pages 3 and 4,  
27 are they self-explanatory?

28 A. I would say so, yes sir.

29 Q. And does your answer earlier given  
30 to me and dealing with increases in coal, increases  
in competitive rates and increases in agreed charges -





1  
2 have you tried to make any adjustment in the  
3 percentage for them?

4 A. No sir, I haven't.

5 Q. But you did say, I think, and it is  
6 correct to say that you did increase them following  
7 the general increase cases?

8 A. That is right.

9 Q. Now, when Mr. Mauro was cross-examining  
10 you at Volume 25, page 3564, as my note says, and I  
11 know that my friends will check it if I give them the  
12 pages, but to move along more quickly I will use my  
13 notes rather than going into the transcript each  
14 time, and I am sure my friends will check me if I  
15 should mis-state it.

16 It is at page 3564 of Volume 25. My note  
17 is that Mr. Mauro was there comparing the increases  
18 in the average revenue per ton-mile on normal  
19 commodity rated traffic of some 35 per cent with an  
20 increase in the domestic grain rate, which you will  
21 recall, up to now is 90 per cent, and you in answering  
22 emphasized that the commodity rated traffic was an  
23 average; why did you emphasize that the commodity  
24 rated traffic that my friend Mr. Mauro had used in  
25 putting that 35 per cent to you was an average?

26 A. Well, Mr. Sinclair, the average revenue  
27 per ton-mile cannot be compared with an increase  
28 in rates; in other words, you can't compare the  
29 35 per cent increase with a 90 per cent increase.

30 Q. Well, why not?

A. Well, of course, the 90 per cent increase







1  
2 reflects an increase in rates, and the average revenue  
3 per ton mile reflects length of haul.

4 Q. Yes, that is one reason. Are there  
5 others?

6 A. Well yes, Mr. Sinclair, there should  
7 be a change so far as the average revenue per ton-mile  
8 is concerned in the commodity mix, that has quite  
9 a marked effect.

10 Q. Are there many commodities in this  
11 large broad average that Mr. Mauro was using?

12 A. I would say thousands, sir.

13 MR. SINCLAIR: Now, that is all I have in  
14 re-examination, and I would ask Mr. Roberts to sit  
15 down until such time as we can arrange through Mr.  
16 Cooper, to cover the questions of my friend, Mr.  
17 Blair.

18 MR. COOPER: I understand that he will be  
19 here all afternoon. If an opportunity will present  
20 itself, I don't know, but in any event Mr. Blair I  
21 am told will be here.

22 MR. SINCLAIR: We will work it out.

23 THE CHAIRMAN: In the meantime, the  
24 Commission may have some questions to ask.

25 MR. FRAWLEY: May I have the indulgence  
26 of the Commission to ask the witness one question  
27 on this Exhibit No. 93?

28 THE CHAIRMAN: Yes.

29 MR. FRAWLEY: Have you got there handy the  
30 judgment of the Board dated November 17, 1958, in  
what has come to be known as the 17 per cent case?





1  
2 MR. SINCLAIR: We will give it to you. What  
3 page?

4 MR. FRAWLEY: Page 30. I will give you  
5 my copy.

6 MR. SINCLAIR: Here it is.

7 MR. FRAWLEY: Would you look at page 30  
8 of the judgment of the Board dated November 17th,  
9 1958, and would you look at exhibit 52, and on page  
10 30 of this judgment there is reproduced in full the  
11 whole of the page, exhibit 58-22, in the 17 per cent  
12 case. Isn't that correct?

13 THE WITNESS: Yes sir.

14  
15 (Page 3743 follows)  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30







1  
2 Q. Will you look at Exhibit 52 and will  
3 you tell me that, with the exception of adding  
4 together line 3, coal and coke, and in making one  
5 total figure of it - with that exception - and  
6 there is another exception - of having coal and  
7 coke and putting them together instead of having  
8 a breakdown local, interline, east, west and total,  
9 coal on exhibit 52 has been shown as one figure;  
10 isn't that correct?

11 A. That is right - revenue-wise, you  
12 mean?

13 Q. Yes, revenue-wise.

14 A. There are actually two figures, one  
15 for the one month period and one for the year.

16 Q. And Exhibit 52 shows under the  
17 increase column 25 cents per ton, and your exhibit 22  
18 shows 25 cents per ton in the same way, in the  
19 east 17.5 cents per ton, and in the west 18.75 cents  
20 per ton, but, other than the coal, has been carried  
21 over into Exhibit 52?

22 A. Yes.

23 Q. And the estimated revenue yield,  
24 also?

25 A. In dollars, yes, that is right.

26 Q. The other exception I want to call  
27 your attention to is that on that exhibit there  
28 are two additional columns, percentage of total,  
29 total estimated revenue from the increase. Can  
30 you tell me whether in any particular exhibit 52  
differs from your own exhibit 58-22 in the 17 per





1  
2 cent case.

3 A. well, yes, absolutely, Mr. Frawley,  
4 because, after all, it certainly does. Your  
5 percentage of total in column 3 doesn't reflect  
6 the true situation, and you are using international,  
7 overhead, import-export traffic and it brings  
8 down your percentage. In the last figure of traffic  
9 that is subject to increase.

10 Q. In Exhibit 52, international, overhead,  
11 import-export and other related rates as shown in  
12 line 2 is shown as 19.8 million dollars, from  
13 November 1 to December 31, 1958, and January 1 to  
14 December 31, 1959, 121.3 million dollars, and I  
15 put it to you that all that Mr. K.J. Morrison has  
16 done is to add those two figures together and  
17 come up with 141.1 million dollars shown on Exhibit  
18 2. Do you challenge that?

19 A. That is what has been done.

20 Q. And he has added as 29.62 per cent -  
21 he has simply taken the 141.1 and he has taken that  
22 as a percentage, as a percentage of the grand total,  
23 476.4, and he has shown that as 29.62 per cent.  
24 Is that true?

25 A. It doesn't portray the true picture  
26 in my estimation. If you are talking about total  
27 revenues subject to a Canadian increase, yes.

28 THE CHAIRMAN: We are back to the old  
29 argument, Mr. Sinclair..

30 MR. FRAWLEY: This isn't the time to argue  
or quarrel with the exhibit, but why the witness







1  
2 had to take time to make that exhibit when my  
3 exhibit shows it....

4 MR. SINCLAIR: Because they were put in  
5 in the exhibit in the revenue case to portray a  
6 situation, and in relation to the issues in that  
7 case my friend, quite frankly - and there is no  
8 offence meant by this at all - my friend did a  
9 little bit of arithmetic gymnastics and he slipped  
10 on the bar. My friend, no doubt, has a very  
11 excellent figure man in Mr. Morrison, and it is  
12 only the use that my friend puts to the good figures  
13 of Mr. Morrison that we are bringing this difference  
14 to the attention of the Commission.

15 THE CHAIRMAN: Well, you have both exhibits  
16 filed.

17 MR. SINCLAIR: That is what I think the  
18 Commission should have. If Mr. Roberts, with  
19 the concurrence of the Commission, could stand down  
20 now.

21 THE CHAIRMAN: Before he stands down,  
22 some of the Commission may have some questions.

23 COMMISSIONER ANSCOMB: Mr. Roberts, I  
24 wonder if you would be good enough to look at page  
25 3583. You were answering a question of Mr.  
26 Doherty, line 17, and I will read it to you. It  
27 is dealing with rates, and I am not going to bother  
28 about them at the moment. This is the question:

29 "In suggesting that rate, the reason that  
30 you are not raising the rate to him"





1  
2 - that is the farmer -

3 "Is that he cannot afford to pay a  
4 higher rate".

5  
6 And your answer was:

7 "I would say that we" - being the  
8 Canadian Pacific Railway, of course -  
9 "don't consider that the economy of the  
10 western farmer could stand this increase  
11 at the moment"

12 A further question:

13 "Would it fair, then, to suggest that  
14 this Crow's Nest rate satisfies your  
15 requirements of this principle, that  
16 you have, in fact, now a rate which is,  
17 as I see it, the upper limits, that  
18 is, that the shipper has not the ability  
19 to pay any higher rate, by your own  
20 admission."

21 And your answer was yes, and then you  
22 add some more with reference to your own requirements.

23 Has your company at any time had a  
24 survey or investigation or a study or anything else  
25 made that would indicate that your customer, which  
26 supplies 40 per cent of your business over half  
27 a nation, cannot pay a rate which you say is just  
28 and reasonable, a rate that would give you a  
29 proper return on your investment.  
30







1  
2 THE WITNESS: Well, sir, we haven't had any study  
3 made such as you suggest as to that situation, but  
4 it is our considered opinion that in present day  
5 conditions the western farmer could not stand this  
6 increase, sir, under present day conditions, having  
7 regard to the situation in respect of grain which is  
8 marketed in competition with our grain by countries  
9 like the United States, which is, as I understand it,  
10 subsidized, and Argentina and Australia. This is  
11 my considered opinion, sir.

12 COMMISSIONER ANSCOMB: Could I ask you this,  
13 Mr. Sinclair, while I am here, and it won't take a  
14 second. On page 3416 you are talking about  
15 demurrage and 2,000 cars, let's say, at the port  
16 of Vancouver, and you said the Supreme Court had at  
17 some time ruled that you could have demurrage and  
18 the Transport Commissioners said you could have it,  
19 and you were prevented in some way in getting it.  
20 Who prevented you and why?

21 MR. SINCLAIR: I might say that I am glad  
22 you asked that question. Who prevented us from  
23 getting it? As I say, it was a group of ---

24 MR. FRAWLEY: At your own risk, go as far  
25 as you like. Don't you answer the question.

26 MR. SINCLAIR: I will answer the Commission  
27 in accordance with the facts as I know them.

28 MR. FRAWLEY: You dig yourself in.

29 MR. SINCLAIR: If I am going to dig myself  
30 in in helping Commissioner Anscomb to understand  
31 it, I am going to dig myself right in. The answer is





1  
2 because of the shackle that is imposed upon the  
3 railways by section 53(1) of the Railway Act, and,  
4 notwithstanding the hearing of the Board on this  
5 issue and appeal to the Supreme Court of Canada  
6 on this issue taken by certain people represented  
7 here and the court having upheld the railways'  
8 submission, certain ex parte, without notice,  
9 representations were made and, as a result of those  
10 representations, notwithstanding the findings of the  
11 Board and the Supreme Court of Canada, the railways  
12 were, and have been from that day until this,  
13 prevented by virtue of a direction of the Governor-  
14 in-Council from collecting for demurrage on grain  
15 what the Board and the Supreme Court of Canada said  
16 was proper.

17 COMMISSIONER ANSCOMB: Would you mind  
18 telling me how much per year you estimate they have  
19 lost by that order?

20 MR. SINCLAIR: Mr. Anscomb, the only way  
21 you can calculate it is to assume - and it is an  
22 assumption you cannot make, with all due respect -  
23 is that the grain trade had wrongfully used box  
24 cars at grain and terminal elevators, which was our  
25 position that they were doing, which the Bracken  
26 Commission indicated was improper, and whether they  
27 would continue to do that when they had a penalty,  
28 all I can say is that I certainly doubt it, and  
29 therefore you cannot take the number of days and  
30 multiply them and say that is the demurrage. But I  
31 will say that a very large sum of money is involved







1  
2 to the railways by having their equipment tied up  
3 at the lakehead.

4 MR. DICKSON: I wonder if I may say one  
5 or two things before that subject is left.

6 THE CHAIRMAN: Yes.

7 MR. DICKSON: As in most issues, I think  
8 my friend Mr. Sinclair will agree, there are two  
9 sides to this one. I personally was not associated  
10 with the demurrage case, but I have a certain  
11 knowledge of it which I think might be of interest  
12 to the Commission seeing that the question has come  
13 up.

14 The Board of Transport Commissioners some  
15 years ago ruled against the right to impose demurrage.  
16 A year or more ago there was a hearing before the  
17 Board in which there was a vast amount of material  
18 filed, and the Board reversed itself. The technicalities  
19 of the decision I will not elaborate on, but the  
20 appeal to the Supreme Court was not, I think my  
21 friend Mr. Sinclair will agree, on the merits of the  
22 case but on the legal, two very narrow legal  
23 questions as to the right of the Board of Transport  
24 Commissioners to impose ~~demurrage~~ if they were so  
25 inclined. I think my friend will also agree that  
26 in this movement of western grain the responsibility  
27 for the movement rests with the Wheat Board, and  
28 with the railways.

29 Now, I think the Commission has no doubt  
30 read the evidence of the next witness, the president  
of Canadian Pacific Railway, which goes to some





1  
2 considerable length to indicate the degree of  
3 control and the degree of supervision which the  
4 railways, from the highest level, exercise in the  
5 matter of movements. I think my friend would also  
6 agree that Section 8 of the Bill of Lading,  
7 Condition 8, permits the railways, if they are so  
8 inclined, to divert from a pool terminal ,  
9 the Lakehead, the cars that are consigned to that  
10 particular place, and the evidence that we are  
11 going to hear a little bit later will indicate  
12 that the railways have information daily on the  
position at the terminals.

13 I think my friend Mr. Sinclair might also  
14 agree - and perhaps this is the most important point  
15 of all - that the Wheat Board have made it abundantly  
16 clear, not only to the railways but also to the  
17 grain handling organizations and to all other  
18 interested parties, that the railways are under no  
19 obligation to spot cars at line elevator positions  
20 if the terminal positions of that particular company  
are unable to accept them.

21  
22 Finally, I think I might also mention for  
23 the information of the Commission although there are tie-  
24 ups - there is no argument about that; there are a lot of  
25 cars on track at the opening of navigation, I think  
26 largely, certainly with the concurrence of the  
27 railways - that condition does not maintain  
28 throughout the year, and I think the Board of Grain  
29 Commissioners' figures indicate that the average of  
30







1  
2 the tie-up at the Lakehead throughout the year is  
3 somewhere in the neighbourhood of four days. So  
4 that the position taken by grain handling organizations  
5 and by the farmers, or for the farmers by the grain  
6 organizations, is that this is a situation they  
7 are unable to control, and the railways denied before  
8 the proceedings, before the Board of Transport  
9 Commissioners, that their very purpose in trying  
10 to impose demurrage on a movement which, for fifty  
11 or sixty years, had been free of demurrage - that  
12 their purpose was not one of revenue, of seeking  
13 to acquire additional revenue for the railways.

14 THE CHAIRMAN: Well, Mr. Sinclair, we will  
15 not re-try the demurrage case now. I suspect we  
16 will hear more about this when we come to your  
17 submission.

18 MR. SINCLAIR: Yes, you will, sir. But  
19 I do want to make just one point clear, and it is  
20 this, that everything in principle Mr. Dickson has said  
21 was advanced by the grain trade as reasons why no  
22 demurrage tariff should be made applicable to  
23 grain at grain terminals, and, notwithstanding the  
24 abilities of the numerous counsel represented at  
25 those proceedings, the Board of Transport Commissioners  
26 ruled that demurrage should be assessed. My  
27 friend is quite right that in the appeal to the  
28 Supreme Court of Canada there were two legal  
29 questions raised. Distinguished counsel, Mr. Hazen  
30 Hansard, representing the line elevators, as I  
31 recollect, Mr. Hunter representing the U.G.G., did





1  
2 feel it necessary to tell the Supreme Court in  
3 in extenso all the background so that they could  
4 understand properly the legal question that was  
5 being presented, and great extracts were made in  
6 the transcript of all these very points that he  
7 made, and, notwithstanding this background and  
8 notwithstanding all these things, the Supreme  
9 Court upheld the Board, and, notwithstanding all  
10 this, without notice, after we had been through  
11 numerous hearings going for a year before the Board -  
12 not just about a year ago, but this started sometime  
13 in advance - notwithstanding that - and this is the  
14 important point of all in my opinion, sir - ex parte  
15 representations were made, without notice -  
16 not even a postcard was dropped to the people  
17 involved - and after this long determination and  
18 investigation the railways were prohibited by Order  
19 in Council issued, after hearing only in camera  
20 representations by one side, an order which has stood  
21 for, this, yea, many months, without an opportunity  
22 for the other side being heard, by virtue of the  
23 unusual powers which are said to be in the public  
24 interest and as they are set out in Section 53(1)  
25 of the Railways Act.

26 COMMISSIONER MANN: I just wanted to  
27 ask, Mr. Sinclair, whether it is a fact that this  
28 order-in-council suspends the order of the Board  
29 pending further studies and investigations. Is  
30 that what it says?

THE CHAIRMAN: It doesn't reverse.







1  
2 MR. SINCLAIR: No, Mr. Chairman, I am glad  
3 that you say it doesn't reverse, because as a man  
4 who has had a great deal to do in dealing with  
5 criminal law, if counsel acting for an accused  
6 has a guilty client, the best thing he can do for  
7 him is to have things suspended, adjourned, and  
8 if you can stop matters from coming to trial, there  
9 is no greater victory than that.

10 What has happened to the railways here  
11 is that, notwithstanding these two long and  
12 complete investigations, one by the most excellent  
13 body in Canada, with their technical advisers  
14 having looked at it, and the highest court in the  
15 land, the railways' case has not been put properly  
16 before anybody. We think it is a grave injustice.

17 MR. DICKSON: We don't, Mr. Chairman.

18 THE CHAIRMAN: We have diverse opinions,  
19 and we are not going to have a re-trial at the  
20 present time.

21 MR. SINCLAIR: You will not only hear from  
22 us but possibly from others in respect to this very  
23 issue when we are dealing with Section 53(1) of  
24 the Railway Act.

25 THE CHAIRMAN: Well, we can close off the  
26 discussion now.

27 MR. DICKSON: I just want to say that  
28 we will be quite happy to continue the discussion  
29 at that time.

30 MR. SINCLAIR: I would like just to call  
Mr. Crump, if I may, and I could probably qualify him  
before the noon adjournment.





1  
2 CRUMP, NORRIS ROY, called.

3 MR. SINCLAIR: The next witness on behalf of Canadian  
4 Pacific is Mr. Norris Roy Crump, the President  
5 of the Canadian Pacific Railway Company. With  
6 your permission, Mr. Chairman, I will deal with  
7 the qualifications and history of Mr. Crump and  
8 ask him at the end whether that properly sketches  
9 out his qualifications and his history.

10 Mr. Crump's jurisdiction extends over  
11 the Canadian Pacific system. He was born in  
12 Revelstoke, British Columbia, received his primary  
13 education in Vancouver and in Revelstoke and his  
14 secondary education at the Winnipeg night school.  
15 He attended Purdue University at Lafayette,  
16 Indiana. He received, in 1929, his Bachelor of  
17 Science degree in Mechanical Engineering, in 1936  
18 his Professional degree, M.E., and has been a  
19 member of the Engineering Institute of Canada from  
20 1936 to date. In 1950 he was given an honorary  
21 members degree by Queen's; in 1951 his old school  
22 gave him a member of engineering degree and made  
23 him a member of the American Society of Mechanical  
24 Engineers. In 1956 he was given the degree of  
25 Doctor of Science at Laval University; in the  
26 same year he received a Doctor of Science Degree  
27 from Clarkston College on Technology.

28 (Page 3758 follows)  
29  
30







1  
2 And then, as his experience broadened, he  
3 became in 1957 a Doctor of Civil Law, given to him by  
4 Bishop's University. And then in 1958 he was made a  
5 Doctor of Laws by the University of Montreal. In 1920  
6 he entered the service of the Canadian Pacific as a  
7 labourer at Revelstoke. In 1920, later, he became a  
8 machinist apprentice at Field, British Columbia; and  
9 in 1922, a machinist apprentice at Revelstoke.

10 And then he moved to Winnipeg, where he became  
11 a machinist apprentice, and while he was doing that he  
12 took night school to complete his secondary education  
13 and, starting in 1925, secured leave of absence to  
14 continue his education, continuing that until he secured  
15 his degree from Purdue in mechanical engineering.

16 He came back after his formal schooling in  
17 Purdue, and became an instrument man in railroad con-  
18 struction in the western part of Saskatchewan.

19 In 1930, he was roundhouse foreman at  
20 Saskatoon, and over the years 1930 to 1936 he was round-  
21 house foreman at the following places in Western Canada:  
22 Saskatoon, Lethbridge, McLeod, Calgary, Willkie and  
23 Moose Jaw.

24 In 1936 Mr. Crump was made the Division Master  
25 Mechanic at Moose Jaw and stayed there until 1939,  
26 except that part of that time he was at Regina in the  
27 same capacity: Division Master Mechanic.

28 In 1940, he became Chief Draftsman for the  
29 Western Lines of Canadian Pacific. In 1941 and 1942 he  
30 was assistant supervisor of motive power for the western  
part of the Canadian Pacific system, that is, west of





1  
2 the head of the lakes.

3 In 1942 he became Assistant to the Vice-  
4 President, Montreal. In 1943, he was made the  
5 General Superintendent of the Ontario District, Toronto.  
6 In 1944, he was Assistant General Manager of the Eastern  
7 Lines, Toronto. In 1946, he was General Manager of  
8 the Eastern Lines in Toronto. In 1947, Vice-President  
9 and General Manager, Eastern Lines, Toronto. Later the  
10 same year, Vice-President of the Eastern Region,  
11 Headquarters, Toronto. And, in April 1948, Vice-  
12 President, System, Headquarters Montreal. February,  
13 1949, he was made a Director of Canadian Pacific.  
14 Later that year he was elected Vice-President of  
15 Canadian Pacific and a member of its Executive Com-  
16 mittee, and in May, 1955, he was elected President of  
17 Canadian Pacific Railway Company, the position he  
18 has held since that date.

19 There is one other interesting point that  
20 is not in my notes concerning Mr. Crump's career, and  
21 that is that when he was laid off during the depression  
22 he was able to get a job with the Winnipeg Hydro, and I  
23 think he worked for the Winnipeg Hydro for a while as  
24 a linesman. I think that that generally sketches  
25 out the career of the witness.

26 THE CHAIRMAN: I am a little curious as to  
27 the nature of his first job. What did that consist of,  
28 Mr. Crump?

29 MR. CRUMP: Well, Mr. Chief Commissioner, I  
30 started in June 1920 with the Canadian Pacific as a  
labourer repairing track at Revelstoke, and in that







1  
2 capacity -- of course, that is the lowest grade, and  
3 naturally we had all of the heavy, menial work to do.  
4 And it was not until September that I transferred to  
5 Field, British Columbia, and started my apprenticeship  
6 as a machinist.

7 THE CHAIRMAN: It is quite a long way from  
8 being a labourer to being President of the C.P.R., but  
9 it speaks well for Canada, Mr. Crump.

10 MR. CRUMP: Thank you, Mr. MacPherson. It  
11 must be borne in mind that this is over forty years.

12 THE CHAIRMAN: Well, it requires something  
13 to climb that far.

14 All right, Mr. Sinclair.

15 MR. SINCLAIR: I would suggest, in view of  
16 the hour, that I present the evidence of Mr. Crump  
17 immediately following lunch.

18 THE CHAIRMAN: We will adjourn now until  
19 two o'clock.

20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
---Luncheon adjournment.





---On resuming at 2.00 p.m.

NORRIS ROY CRUMP, called

DIRECT EXAMINATION BY MR. SINCLAIR:

Q. Just before the noon adjournment, Mr. Chairman and Commissioners, I had sketched the background and qualifications of the witness, and I have not asked him the question as to whether the information that I had in my notes and which I put on the record was correct.

A. It was essentially correct.

MR. SINCLAIR: Mr. Chairman and members of the Commission, on the precis which I don't intend to file as an exhibit, but which I would use as a basis for the examination of Mr. Crump, it has been filed with the Commission for some weeks and it deals with two subjects; the necessity that railway revenues from grain traffic now moving at statutory and related rates be adjusted in order that this traffic will bear a fair proportion of total transportation costs, which the Commission will recall is Section 5 of the Joint Submission of the railways, being Exhibit 45 in these proceedings.

The second general subject which Mr. Crump will deal with is recommended solutions to enable the railways to secure revenues based on just and reasonable rates for movement of grain in western Canada to export positions while maintaining existing freight charges on grain to farmers, which is Section 9 of the Submission







1  
2 of Canadian Pacific, being Exhibit 47 in these proceed-  
3 ings.

4 Q. Now, Mr. Crump, how would you describe  
5 the early history and development of Canadian Pacific?

6 A. The early history of Canadian Pacific  
7 shows the challenges met and the difficulties overcome  
8 in establishing the railway industry in Canada. The  
9 financial obstacles in the way of railway construction  
10 in the first few decades after Confederation were so  
11 severe that the Government found it necessary to offer  
12 inducements before private enterprise was prepared to  
13 accept the substantial risks involved. It will be  
14 recalled that an attempt to build a transcontinental  
15 railway as a government enterprise failed.

16 Railways were such an effective instrument in  
17 populating and developing various parts of Canada that  
18 in certain areas the expansion of railways was carried  
19 beyond the point of economic justification. This  
20 overbuilding made the railway industry highly competitive  
21 in a period when traffic was light, with the result  
22 that some of the less stable enterprises failed,  
23 while others barely managed to avoid bankruptcy.  
24 Gradually the remaining smaller railways were united  
25 into the existing transcontinental systems. For a  
26 period those railways with a cohesive route pattern  
27 enjoyed relative prosperity.

28 Q. Now, Mr. Crump, would you summarize very  
29 shortly the situation in the period of the depression,  
30 the thirties, and the post World War II period?

31 A. With the arrival of the depression of





1  
2 the 1930's the railway industry was faced with a period  
3 of very low traffic and very low returns. The earnings  
4 position of the railways during this decade had a detri-  
5 mental effect on railway plants. Before recovering  
6 from the depression the railways were faced with the  
7 task of handling wartime traffic. In spite of  
8 their worn equipment inventories, a remarkable job  
9 was done in handling the very heavy freight and passen-  
10 ger traffic movements, while handicapped by the absence  
11 of many skilled employees in the Armed Services.

12 Notwithstanding the introduction and ex-  
13 pansion of newer forms of transport during the past  
14 twenty years, railways now and in the foreseeable  
15 future, will continue to be the foundation of the  
16 nation's transportation system providing the most  
17 economical method of moving the major portion of the  
18 country's freight traffic.

19 Q. Now, go on with the postwar period,  
20 please?

21 A. Since World War II while the Canadian  
22 gross national product increased from \$11.8 billion in  
23 1946 to \$32.5 billion in 1958, Canada enjoyed a period  
24 of unprecedented growth and prosperity. Unfortunately  
25 the railways did not participate in this general pros-  
26 perity and have not been able to earn a fair return on  
27 investment. In fact, during this period the rate of  
28 return on net investment in rail property on Canadian  
29 Pacific was 3 per cent or less for eight of these  
30 thirteen years and only rose above 4 per cent in one of  
these years. This is far below what is proper for a







1  
2 public utility, being only about the interest rate on  
3 Government bonds. Indeed, in 1958 the return of 2.7  
4 per cent was substantially below the rate of interest  
5 on Canada savings bonds which are risk free as to both  
6 principal and interest.

7 Q. Would you please now discuss the relation-  
8 ship of investment and net revenues of Canadian Pacific?

9 A. The net investment of Canadian Pacific  
10 in its rail transportation system has grown from \$950  
11 million at the end of 1946 to \$1,440 million at the end  
12 of 1958. The rapid growth of Canada in the postwar  
13 period has resulted in increased demands for freight  
14 transportation service. During the postwar period there  
15 has been a substantial increase in revenue ton miles from  
16 a low of 22.9 billion in 1950 to a high of 30.4 billion in  
17 1956. In 1958 Canadian Pacific produced 26.9 billion  
18 revenue ton miles. Despite heavy capital expenditures  
19 to improve facilities and bring about economies in  
20 operations and in spite of a substantial increase in  
21 revenue ton miles, the financial position of Canadian  
22 Pacific has deteriorated.

23 Q. Yes.

24 A. If it is to meet the needs of an expanding  
25 Canadian economy and develop with the changing demands  
26 for transportation service, Canadian Pacific must earn  
27 from its railway operations a sum over and above fixed  
28 charges which will provide a fair return upon the equity  
29 capital invested in the railway enterprise. A fair  
30 return on equity capital should provide some of the  
funds necessary for the growth of the industry and is





1  
2 essential to attract such further capital as may be  
3 needed. Such capital is required to provide funds  
4 necessary to meet the excess cost of replacement in  
5 kind of facilities at prices substantially above their  
6 original cost and for the acquisition of improved  
7 transportation tools that are being developed.

8 Q. Mr. Crump, in your experience, why has  
9 the return on net rail investment in Canadian Pacific  
10 not improved?

11 A. Well, first I place the fixed level of  
12 statutory freight rates on Western Canadian grain:  
13 The rigidity of the statutory rates on grain and  
14 grain products has prevented revenues from this seg-  
15 ment of traffic being increased in keeping with increases  
16 in the cost of transportation. The movement of grain  
17 and grain products, particularly since World War II,  
18 has occurred in a period of rapidly rising labour  
19 and material costs. For instance, when the Crow's  
20 Nest Agreement was fully implemented in 1899, the  
21 average hourly labour cost was 18 cents, new rail was  
22 \$17 per net ton and a 30-ton box car was approximately  
23 \$600. In 1958 the average hourly labour cost at \$2.21  
24 was more than 12 times the 1899 labour cost. New rail  
25 at \$120 per net ton was seven times the cost of 1899  
26 and a new 60-ton box car at \$9,100 was eight times  
27 the per capacity ton cost of 1899.

28 And, then, secondly, I would say inability  
29 to secure from general freight rate increases revenues  
30 which would enable the railway to meet increased costs  
and earn a reasonable return on investment: Because of







1  
2 the statutory rates, the railways have been under the  
3 necessity of attempting to recover increased costs from  
4 only a segment of their traffic. As a result the area  
5 of competition has increased, particularly from motor  
6 trucks, and in certain instances traffic volume has  
7 been reduced through the introduction of substitute  
8 products or competition from foreign products. Retro-  
9 active wage increases and time lag in having general  
10 revenue cases heard and freight rate increases author-  
11 ized made effective has accentuated this problem.

12 And thirdly, competition from other media  
13 of transport: Although the railways provide mass land  
14 transportation at the lowest possible cost, they have been  
15 faced with ever-increasing competition for higher class  
16 freight from highway transport. The result has been  
17 to reduce revenues and volume from higher rated traffic.  
18 In some cases the result has been that traffic has  
19 been lost and in others where it has been retained,  
20 it has only been possible to do so at reduced rates.  
21 It has not been possible to recoup this lost revenue  
22 through increasing rates to the necessary degree on  
23 lower rated traffic without adversely affecting volume.

24 Q. Now, you have given the reasons in your  
25 experience why, in spite of the evidence you gave  
26 previously, there is difficulty in improving the return  
27 on the net rail investment.

28 Now, would you discuss, please, the post  
29 World War II revenue cases, the general revenue cases  
30 and the permissive level of earnings as allowed by the  
Board of Transport?

(Page 3770 follows)





1  
2 A. In post World War II general revenue  
3 cases, the Board of Transport Commissioners has used  
4 the net rail earnings of Canadian Pacific as the  
5 yardstick to determine the overall level of just and  
6 reasonable rates for Canadian railways. To determine  
7 permissive net rail earnings for Canadian Pacific it  
8 adopted the requirements formula. The requirements, as  
9 allowed by the Board, comprise three elements: fixed  
10 charges allocated and apportioned to rail enterprise,  
11 dividends of four per cent on preference stock and  
12 five per cent on ordinary stock, and an allowance for  
13 surplus. Notwithstanding the shrinkage in the value  
14 of the dollar, the reduction of Canadian Pacific debt  
15 and the reinvestment of Company's earnings in plant and  
16 equipment in the years which followed the first post  
17 war decision, the elements of the requirements formula  
18 have remained the same, with one exception, an  
19 additional allowance to provide for the transfer of  
20 assets as of January 1, 1956, from non-rail to rail  
21 investment. The effect of the requirements formula  
22 has been to produce for Canadian Pacific a declining  
23 level of permissive net rail earnings in relation to  
24 net investment in rail property. Notwithstanding the  
25 low level of net rail earnings allowed by the Board,  
26 Canadian Pacific over the period 1946 through 1958  
27 was \$189 million short of reaching the permissive  
28 earnings.

26 THE CHAIRMAN: \$189 million, Mr. Sinclair?

27 MR. SINCLAIR: Yes, \$189 million, sir. The  
28 reason for that change is that when this figure was  
29  
30







1  
2 developed for Mr. Crump, due allowance was not  
3 made, in stating 1946, for the result of the Board's  
4 judgments in the twenty-one and following cases, and  
5 therefore the 1946, which was in this figure, was  
6 wrongly stated, the adjustments being made to put  
7 it on a proper and consistent basis, which changes  
8 the figure from \$194 million to \$189 million.

9 MR. SINCLAIR: Q. You were saying that  
10 in the period from 1946 through 1958 Canadian Pacific  
11 was \$189 million short of reaching the permissive  
12 level of earnings allowed by the Board. And would  
13 you now go on to discuss, please, the position by  
14 individual years as to the relationship of net  
15 earnings to the permissive level?

16 A. In no year did the net earnings of  
17 Canadian Pacific reach the permissive level, and,  
18 furthermore, in no year was the return sufficient to  
19 enable the company to raise capital through equity  
20 financing. Most recent estimates indicate that  
21 Canadian Pacific's net rail earnings in 1959 will be  
22 at about the same unsatisfactory and unfair level as  
23 in 1958, notwithstanding the improved economic  
24 conditions in Canada which have been experienced since  
25 the beginning of the year.

26 Q. How does the Canadian Pacific define  
27 a just and reasonable permissive level of net rail  
28 income or net earnings?

29 A. We adopt the language used in the  
30 Supreme Court of Canada in Northwestern Utilities  
Limited versus the City of Edmonton (1929) that a





1  
2 just and reasonable level of net earnings for a  
3 public utility would allow as large a return on the  
4 capital invested in its enterprise as it would  
5 receive if it were investing the same amount in  
6 other securities possessing an attractiveness,  
7 stability and certainty equal to that of the company's  
8 enterprise.

9 Q. Have you examples of this approach,  
10 looking on the reasonable level of permissive earnings  
11 for public utilities which you would like to draw  
12 to the attention of the Commission?

13 A. In May, 1959, when the government of  
14 Canada introduced legislation to establish the  
15 National Energy Board for the regulation of the  
16 pipe line industry, the government's views on  
17 regulation was stated.

18 The Right Honourable J.G. Diefenbaker stated  
19 the principles of regulation and I quote:

20 "First, maintenance of the public interest;  
21 second, the assurance that the wells of  
22 risk investment shall not be dried up;...."

23 The Minister who introduced the legislation,  
24 the Honourable Gordon Churchill, dealt with the matter  
25 at some length. In dealing with the companies that  
26 were to be regulated by the new administrative  
27 tribunal, and noting the risk involved, he stated:

28 "For this reason they must not be  
29 prevented by regulatory action from earning  
30







1  
2 a return sufficient to attract capital, nor  
3 must management be deprived of the normal  
4 incentive to improve efficiency."

5 And again,

6 "If the development of the petroleum and  
7 related industries is to continue, still  
8 larger sums of capital must be attracted  
9 for future investment. It is our desire  
10 and intention that the climate for  
11 investment in these industries in Canada  
12 will, so far as it lies within control  
13 of this government, be such that this  
14 needed capital will be attracted by the  
15 prospect of fair and reasonable returns  
16 within a framework of stable and realistic  
17 government policy."

18 Q. What is the situation in regard to  
19 the basis upon which the Canadian Pacific looks upon  
20 a permissive level of earnings as applied to the  
21 railways in Canada?

22 A. The principle that railways should earn  
23 a fair return on the capital committed to  
24 transportation has long been recognized. On pages  
25 30 and 31, paragraphs 94 and 95 of the Joint Submission  
26 of the railways, reference is made to and extracts  
27 quoted from two Judgments of the Board of Railway  
28 Commissioners.

29 MR. SINCLAIR: Mr. Chairman and Members  
30 of the Commission, the first judgment that is referred





1  
2 to in paragraph 94 of Exhibit 45 is Governments  
3 of Manitoba and Saskatchewan versus Railway  
4 Association of Canada (1920) 26 C.R.C. 298.

5 To what in particular do you wish to draw  
6 to the attention of the Commission, Mr. Crump,  
7 based on your experience in light of what you have  
8 been talking about from that matter that is set out  
9 in the Joint Submission?

10 A. The Board recognized that a railway  
11 should be in a position to earn annually over and  
12 above its operating expenses and costs of  
13 maintenance, such a sum as will enable it to pay its  
14 interest and other property charges and generally to  
15 maintain its credit and standing in the financial  
16 world.

17 Q. The second Judgment set out in the Joint  
18 Submission, page 30, paragraph 95 is in re  
19 General Freight Rate Investigation (1927) 33 C.R.C.  
20 127.

21 What in that and in the extract quoted in  
22 the Joint Submission which has been filed do you  
23 wish particularly to draw to the attention of the  
24 Commission, Mr. Crump.

25 A. The Board recognized the principle  
26 of a fair return and the application of that  
27 principle in a fair and just manner in fixing and  
28 enforcing just and reasonable rates.

29 Q. Mr. Crump, have Canadian Pacific in  
30 recent years earned a fair return on the property  
used in rail service?







1  
2           A.    As stated earlier, in the post war  
3 period, Canadian Pacific has never earned a fair  
4 return on rail investment and this has presented  
5 a serious problem in managing its affairs.

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7                           (Page 3780 follows)  
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2 Q. Mr. Crump, how do you look at the job  
3 that the railway has had to do in the postwar period?

4 A. In the postwar years, the task of rail-  
5 way management has not been an enviable one. Faced  
6 with sharply increased labour costs and material prices  
7 and with limited ability to increase revenues by  
8 increasing rates, management has been engaged in a  
9 difficult struggle to maintain a margin between  
10 earnings and expenses. The result has been that;  
11 notwithstanding the investment of large sums of new  
12 capital in railway property, in spite of the fact that  
13 business throughout Canada generally has been en-  
14 joying unprecedented prosperity and that demands for  
15 railway services are nearly at an all-time high, the  
16 net earnings have produced a fewer number of  
17 smaller dollars to service increased rail investment.

18 Q. In the light of what you have just said,  
19 Mr. Crump, what has Canadian Pacific management done?

20 A. The management of Canadian Pacific has  
21 endeavoured to secure maximum advantage from techno-  
22 logical improvements in the railway industry. These  
23 changes made possible through substantial capital  
24 investment, should have resulted in a marked improvement  
25 in Canadian Pacific's total expense ratio. However,  
26 this was not the case. In 1946 and 1947, immediately  
27 after World War II, the total expense ratio for Canadian  
28 Pacific was a little under 93 per cent and in 1957 and  
29 1958 was within the same area, being 92.2 per cent.

30 Q. Just so that we can bring it up to date  
as possible, Mr. Crump, have you an estimate as to that







1  
2 ratio for 1959? I recognize and the Commission recog-  
3 nizes that the accounts are not closed, but could you  
4 give it for 1959?

5 A. Our estimate at this time is 92.5 per  
6 cent.

7 MR. SINCLAIR: 92.5 per cent, the witness  
8 says.

9 Q. Mr. Crump, in your view, are there major  
10 distinctive areas in the railway industry that have a  
11 particular bearing on the railway situation that you  
12 would like to draw to the attention of the Commission?

13 A. Yes. The railway industry is unique  
14 in that it is both capital heavy and labour heavy.

15 Q. Would you deal with the capital part of  
16 that situation first, sir?

17 A. Canadian Pacific has a very large pro-  
18 perty investment. As at December 31, 1958, the net  
19 rail investment of Canadian Pacific was \$1,440 million  
20 on the basis approved by the Board of Transport Com-  
21 missioners.

22 Q. \$1,440,000,000?

23 A. Yes. This large property investment  
24 is subject to use and age. It follows, therefore,  
25 that this property is inexorably moving towards a date  
26 on which it must be replaced or abandoned. While  
27 depreciation is accrued to recover the original cost  
28 of the property, the amounts so realized fall far short  
29 of the sum necessary to make replacement under present  
30 conditions on account of the marked advance in the price  
level, particularly in the last fifteen years. In fact,





1  
2 however, in many instances it is neither feasible nor  
3 desirable to replace property in kind. The old article  
4 has become obsolete and is no longer available. Main  
5 line rail weighing eighty pounds per yard has given way  
6 to rail of a hundred pounds or heavier, and the steam  
7 locomotive gives way to its diesel-electric counterpart.  
8 Almost inevitably the improved article costs more than  
9 a reproduction of the original were it available, and  
10 this in turn necessitates further capital outlay.

11 Q. Are there other factors that railway  
12 management must consider in dealing with this capital  
13 situation that you would like to deal with, Mr. Crump?

14 A. Another factor creating a demand for  
15 the expenditure of capital funds for railway property  
16 stems from the very growth of Canada itself. Our  
17 increasing population, the expanding gross national  
18 product, the development of new industry and the tapping  
19 of new sources of minerals, create new demands for rail  
20 facilities which necessitate the construction of new  
21 branch lines, the provision of more rolling stock and  
22 increases in the traffic handling capacity of segments  
23 of the railway.

24 In recent years, there has been a marked  
25 change in the type of service required of the railway  
26 largely due to increased competition. Business firms  
27 generally operate on smaller inventories and demand  
28 quicker service and they will frequently turn to com-  
29 petitive transportation agencies if the railways are not  
30 in a position to meet their requirements. There is an  
increasing use of specialized types of freight cars, such  
as, covered hopper cars for commodities which must be  
protected from the weather and wide door box cars for







1  
2 loading of commodities handled by fork lift trucks.  
3 The provision of equipment and improvements in service  
4 to attract and hold customers requires capital outlay.

5 Q. Are there other major areas that are  
6 the reason for substantial capital demands, Mr. Crump?

7 A. Yes. Railways are also required to  
8 expend capital to effect operating economies, to improve  
9 working conditions and to provide added safety.

10 Q. Mr. Crump, earlier you said the railway  
11 industry was unique in that it was both capital heavy  
12 and labour heavy. I think you have summarized a  
13 number of reasons why you say the railway industry is  
14 capital heavy. Would you now deal with the railway  
15 industry in relation to being labour heavy?

16 A. Another unique feature of the railway  
17 industry is the extremely high labour content in railway  
18 operating expenses. In 1958 55 per cent of railway  
19 revenues went to meet labour costs. The large labour  
20 content in total operating expenses has been a serious  
21 matter for the railways, particularly during the postwar  
22 years. Since 1947 railway labour expenses have  
23 increased over 100 per cent, an increase which cannot  
24 be equitably met in the light of fixed rates for the  
25 movement of grain and grain products to export positions  
26 in Western Canada.

27 Q. Mr. Crump, what proportion of railway  
28 revenues are spent for materials?

29 A. In the year 1958 19 per cent of railway  
30 revenues were used in the purchase of materials and  
supplies. Since 1947 railway material prices have  
increased by 52%. Once again, these increases  
in material prices have





1  
2 been particularly onerous when it is considered that  
3 such a large proportion of Canadian Pacific freight  
4 traffic is moved at statutory and related rates and  
5 has not taken any part of the increase in these prices.  
6 As wage and material prices continue to rise, this  
7 inequity in the freight rate structure is steadily  
8 worsening, making it more urgent than ever that grain  
9 and grain products carry a fair share of these  
increasing costs.

10 Q. Yes, Mr. Crump, would you go on, please?

11 A. The fixed level of statutory grain rates  
12 has had the effect of narrowing the traffic volume to  
13 which postwar general revenue increases could be  
14 applied. Because of the volume of the grain traffic,  
15 other problems of the railways, such as the provision  
16 of adequate capital, which might well have been ones  
17 they could have borne, have become unbearable and  
18 resulted in the deterioration of the financial  
19 position referred to earlier. As rates were increased,  
20 competition, particularly from motor vehicles, became  
21 more intense and pervasive, further limiting the area  
22 to which the railways could turn to meet their increased  
costs.

23 Q. What has been the effect, Mr. Crump, of  
24 the exemption of that segment of traffic that moves  
25 at statutory rates in Western Canada from the increase  
26 in rail transportation costs in the postwar period, if  
you like?

27 A. The pricing characteristics of railway  
28 transportation have changed markedly. The railways are







1  
2 no longer able to offset low rates on large segments of  
3 traffic by charging higher rates than would otherwise  
4 be necessary on other traffic. The railways with the  
5 existing cost of providing transportation, can no  
6 longer afford to exempt the largest single segment of  
7 their traffic from bearing a fair proportion of  
8 transportation costs.

9 The low fixed statutory grain rates have  
10 contributed materially to the diversion of traffic  
11 from rail to other carriers which are free from any  
12 similar obligation. A source of substantially  
13 increased revenues for the railways would be a just  
14 and reasonable rate level for the movement of grain  
15 and grain products to export positions in Western Canada.

16 Q. Mr. Crump, Mr. Roberts, as an experienced  
17 traffic man, has given his views as to the time spent by  
18 the operating people on the railway to this western  
19 Canadian grain movement to export positions. The  
20 question I would like to ask you, for the Commission,  
21 is, as an experienced operating man, what is your view  
22 as to the time the railway operating officers give to  
23 this very important western grain movement?

24 A. No segment of traffic receives more  
25 attention from operating officers of the railways than  
26 does the movement of western grain to export positions.  
27 Throughout its history, operating officers of Canadian  
28 Pacific have had deeply impressed upon them the impor-  
29 tance of the movement of grain. They are aware of the  
30 fact that historically, Canadian Pacific was instru-  
mental in opening Western Canada and the Company has





1  
2 always been fully aware of its responsibility to the  
3 people who settled there. The fact is that the move-  
4 ment of grain to the lakehead and the Pacific Coast for  
5 export comprises from one-quarter to one-third of the  
6 total volume of freight traffic handled by Canadian  
7 Pacific as measured in revenue ton miles.

8 Q. Do you mean Canadian Pacific System there,  
9 sir?

10 A. Yes.

11 Q. Yes, would you go on, please?

12 A. Each morning, seven days a week, the  
13 Vice-President, Operations, and the Chief of Transpor-  
14 tation receive and review telegraphic reports cover-  
15 ing the previous days' operations. The information  
16 pertaining to the handling of grain comprises a very  
17 substantial part of the data transmitted in these  
18 reports. It includes information such as: a report  
19 on the bushels of grain marketed, cars of grain loaded  
20 the previous day, grain in storage in terminal ele-  
21 vators, cars unloaded the previous day, cars on hand  
22 awaiting unloading and in transit, ships from the  
23 terminal elevators, and the destinations of lake  
24 steamers. These two officers daily consider the car  
25 supply situation in respect to the movement of grain.  
26 In addition to the officers at System headquarters,  
27 operating officers at the regional and divisional level  
28 on the Prairies are giving even more detailed atten-  
29 tion to the grain movement. There is no doubt that  
30 operating officers of Canadian Pacific give a  
disproportionately large share of their time to







1  
2 the movement of this traffic, both on the basis of  
3 volume and, of course, revenue.

4 Q. Mr. Crump, you say both on the basis of  
5 volume and, of course, revenue. We have had evidence  
6 here that grain moving at statutory rates is approxi-  
7 mately 40 per cent in Western Canada of the volume  
8 of work done by the railway, and I bring that to your  
9 attention in view of the statement that you have just  
10 made, and I ask you, in having that figure that has  
11 been put on the record, 40 per cent in Western Canada,  
12 whether you want to reconsider in any way what you  
13 have said, or was it having that in mind that you made  
that statement?

14 A. No, from my own experience on this matter  
15 I stand by the statement I have made.

16 Q. That is, notwithstanding that it is  
17 40 per cent of the total work done, you say by that  
volume check there is a disproportion?

18 A. There is still a disproportionate amount  
19 of time spent on the grain movement.

20 Q. Now, Mr. Crump, the next point I would  
21 like to raise with you is this: if reasonable remunera-  
22 tion to the railways for the handling of the western  
23 grain crop to export positions is not given, what would  
be the result?

24 A. If recognition is not accorded to the  
25 railways' necessity to secure adequate revenues for the  
26 movement of export grain from Western Canada, the  
27 intensity of the railway problem will continue to  
28 increase, to the detriment of all Canadians and the  
29  
30





1  
2 shippers of all commodities, grain included.

3 Q. Mr. Crump, has -- and I put this to you  
4 as an old and experienced witness in general revenue  
5 cases and one who has had the advantage of coming to  
6 this court room and explaining railway matters to a  
7 number of people and, of course, seeing the result  
8 of your efforts in the Board's Judgments:  
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15 (Page 3795 follows)  
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1  
2 Now, my question is this: to your  
3 knowledge and in your experience in presenting these  
4 general revenue issues in this room, have the fixed  
5 rates on statutory grain movements been a problem  
6 to the Board of Transport Commissioners?

7 A. The Board of Transport Commissioners  
8 has the duty of determining a general level of freight  
9 rates which is just and reasonable to both the  
10 railways and their customers. The Board has been  
11 seriously hampered in carrying out this duty by the  
12 fact that the rates on grain moving to export  
13 positions in western Canada are removed by statute  
14 from the control of the Board. This, the largest  
15 segment of Canadian Pacific's freight traffic, must be  
16 carried at statutory rates unchanged from the rate  
17 level which existed before the turn of the century.

18 The Board has commented on the situation  
19 on a number of occasions. In paragraph 96 of the  
20 Joint Submission of the Railways extracts are quoted  
21 from General Revenue Cases. In the General Revenue  
22 Case known as the 7 Per Cent Increase Case, which  
23 was decided in 1953, the Board expressed its concern  
24 as to the long term ability of the Canadian economy  
25 to continue indefinitely to meet substantial increases  
26 in freight rates, as had been required in the  
27 preceding years. The Board noted that provincial  
28 counsel who had opposed the railways had emphasized  
29 the possibility of diminishing returns through the  
30 railways pricing themselves out of the market.

Q. Mr. Crump, what is the attitude of





1  
2 Canadian Pacific management in this matter?

3 A. Canadian Pacific management is  
4 concerned with providing transportation service at  
5 the lowest possible cost and is also concerned with  
6 the equitable distribution of that cost over the  
7 various types of traffic which move on the railway.  
8 Canadian Pacific management, like the Board, has been  
9 concerned with increasing labour costs and the  
10 difficulty of meeting these costs without adversely  
11 affecting traffic volume. Undoubtedly, as the  
12 Board noted in the General Revenue Case it decided  
13 in 1954, increased rates brought about by increased  
14 costs have resulted in the railways losing some  
15 traffic, particularly to trucks. The Board has  
16 expressed concern as to the need of keeping the  
17 railways in a healthy operating condition. A healthy  
18 operating condition requires adequate revenues,  
19 which cannot be secured unless the railways'  
20 remuneration from western grain traffic is just and  
21 reasonable.

22 Canadian Pacific management has recognized  
23 the distortion in the freight rate structure which  
24 has resulted from the fact that western grain rates  
25 are at a fixed level and the adverse effect this  
26 fact has had on the relative proportions of high  
27 and low rated traffic being carried. The Board in the  
28 15 per cent General Revenue Case, decided at the end  
29 of 1957, noted the difficulty arising from the fact  
30 of western grain traffic yielding only approximately  
one-quarter of the revenue per ton mile secured from







1  
2 freight traffic other than this grain. This difficulty  
3 has been recognized by Canadian Pacific for some  
4 years. While Canadian Pacific management strongly  
5 disagrees with the position taken by the Board that  
6 the requirements formula in its present form does  
7 not present a problem, nevertheless, the largest  
8 single problem the railways have arises from the  
9 distortion in the freight rate structure caused by  
10 the statutory grain rates.

11 Canadian Pacific management has for some  
12 years found it extremely difficult to understand why  
13 the unfairness in the fixed statutory level of the  
14 western grain rates has not been generally recognized  
15 and why appropriate action has not been taken to  
16 meet this problem.

17 Q. Now, Mr. Crump, I wish to turn to  
18 another matter and ask you to give the Commission  
19 your approach to future planning, having in mind  
20 the situation of the railways.

21 A. Within the limits placed upon it by  
22 the availability of capital, Canadian Pacific as  
23 a public service industry has continued to plan  
24 for the future, making use of whatever new techniques  
25 and improvements could be found to improve service  
26 and control costs. These improvements have required  
27 outlays of substantial capital sums and notwithstanding  
28 the efforts of management, such outlays can only be  
29 continued if the climate is such that the needed  
30 capital will be attracted by the prospect of fair  
and reasonable returns. A just and reasonable rate





1  
2 level on the large volume of grain and grain products  
3 presently moving to export positions at statutory  
4 rates would materially assist solution of the  
5 financial problems of Canadian Pacific which is  
6 essential if the railway is to be in a healthy  
7 operating position.

8 Q. Now, as the Commission knows, and  
9 as you know, you were a witness in that proceeding,  
10 in 1949 the Canadian Pacific presented certain  
11 views to the Turgeon Royal Commission, and the only  
12 point I wish to ask you now in relation to that is  
13 this: has the position of the Canadian Pacific  
14 since 1949 changed, 1949 to the present, in those  
15 ten years, eleven years.

16 A. The position of Canadian Pacific is that  
17 its difficulties have become greater since the fixed  
18 statutory rates on western grain were considered  
19 by the Turgeon Royal Commission in 1949. It is  
20 worthy of note also that the Turgeon Royal Commission,  
21 in not recommending a change in the level of the  
22 grain rates, was dealing with a proposal that western  
23 Canadian grain rates should be dealt with the same  
24 as all other rates. The Commission, after  
25 emphasizing the particular situation in western  
26 agriculture at page 250 of its report, emphasized that  
27 it was not being said that the level of the Crow's  
28 Nest rates must never be changed.

29 Q. Thank you, Mr. Crump. Now, in  
30 evidence already received by this Commission, which  
was put in the record by Mr. Reid, the total value







1  
2 of cash and lands received by the Canadian Pacific  
3 under ~~the~~ Crow's Nest Agreement was stated to be,  
4 and the detail was delineated, arriving at a total  
5 figure of some \$5 million.

6 What have you, Mr. Crump, to say concerning  
7 this payment of five millions of dollars under the  
8 Crow's Nest Agreement.

9 A. This sum of \$5 million had been repaid  
10 many times over in rate reductions between 1897 and  
11 1925 when the government fixed by statute the level  
12 of grain rates. Particularly since World War II, the  
13 low level of these rates has created a serious  
14 burden for Canadian Pacific. In 1958 alone this  
15 traffic would have earned additional net revenue of  
16 \$18 million for Canadian Pacific if the rates had been  
17 at a just and reasonable level.

18 It should be remembered that the stake of  
19 Canadian Pacific in western Canada is proportionately  
20 larger than in any other geographical area - two-  
21 thirds of its trackage is in western Canada.

22 Q. What is your position regarding the  
23 western grain growers and the relationship of this  
24 segment of economy to the balance of the Canadian  
25 economy?

26 A. Canadian Pacific acknowledges the  
27 importance of agriculture to the Canadian economy and  
28 is particularly cognizant of western agriculture in  
29 the economic well-being of Canada. The production  
30 and export of grain and flour forms one of the  
chief assets of the country and is essential to the





1  
2 Canadian economy as a whole and particularly to that  
3 of western Canada.

4 The Company fully appreciates the purpose  
5 of the government of Canada in entering into the  
6 grain rate provisions of the Crow's Nest Agreement in  
7 1897 and in the affirmation of that purpose in  
8 enacting the amendments to the Railway Act in 1925,  
9 when the Agreement was set aside and grain rates were  
10 made purely statutory and applicable throughout western  
11 Canada. That purpose may be stated simply as one  
12 intended to assist the grain growing industry of the  
13 prairies by giving the benefit of favourable  
14 transportation costs to grain and its products moving  
15 to export positions.

16 Canadian Pacific is well aware of the  
17 problems involved in the export of western Canadian  
18 grain. The sale of grain in international markets  
19 involves factors which are beyond the control of  
20 the farmer and the sale price for export grain must  
21 remain competitive. Until there is a marked change  
22 in the situation, the Canadian farmer cannot, without  
23 hardship, pay out of the sale price of grain, a just  
24 and reasonable rate for moving grain and grain  
25 products to export positions.

26 Q. What has been the relationship, Mr.  
27 Crump, between freight rates and other costs of  
28 the farmers in relation to their earnings?

29 A. Freight rates on grain and grain  
30 products have been the only stable element in the  
31 costs of the farmers in the post war period. Canadian







1  
2 Pacific, however, should not be required to provide  
3 a service so essential to western agriculture unless  
4 it is able to secure adequate compensation for the  
5 work performed. While the importance of western  
6 agriculture to Canadians is beyond question,  
7 healthy railways are an equally important factor in  
8 the economic well-being of Canada.

9 Q. In your opinion, Mr. Crump, what has  
10 been the effect of inadequate revenues to the  
11 railways in the movement of grain to western Canada  
12 to export positions, in relation to the public  
13 interest in Canada?

14 A. It is clear that inadequate revenue  
15 from the movement of the western Canadian grain crop  
16 to export positions is contrary to the public  
17 interest. The solution of the problem created by  
18 the fixed rates on this traffic is basic to a  
19 solution of problems relating to railway transportation  
20 in Canada.

21 Q. Of great importance, Mr. Crump, is  
22 the position of Canadian Pacific as to the manner  
23 that adequate revenues from grain should be secured.  
24 What is that position?

25 A. In the light of existing conditions,  
26 Canadian Pacific is not taking the position that  
27 the grain freight charges to the farmers at this  
28 time be changed or that they be removed from the  
29 from the immediate control of Parliament. Its  
30 position is that a just and reasonable level should  
31 be operative but that the rates charged to the





1  
2 farmers would remain as they have remained since  
3 1927.

4 Accordingly, a solution must be found which  
5 will recognize the basic needs and the required  
6 favourable transportation rates for western grain  
7 growers and at the same time enable the railways  
8 to be financially sound.

9 MR. SINCLAIR: Mr. Crump, and members  
10 of the Commission, if it suits the convenience of  
11 the Commission I think that we might take a  
12 recess.

13 THE CHAIRMAN: Yes.

14 ---Short recess.

15  
16 (Page 3810 follows)  
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1  
2 MR. SINCLAIR: Just before the recess, Mr.  
3 Chairman, Mr. Crump had stated that a solution must be  
4 found which would recognize the basic rate as a required  
5 favourable transportation rate for Western grain growers,  
6 and at the same time enable the railways to be financially  
7 sound, having in mind what he had stated, and that is that  
8 the rates for the movement of the grain that we are  
9 dealing with would remain under the immediate control  
10 of Parliament.

11 Q. Now, Mr. Crump, my question to you is  
12 in the light of what you have stated, and I have just  
13 very shortly summarized it, how did you approach that  
14 solution?

15 A. Well, I feel the solution should provide,  
16 first, revenues to the railways for the movement of  
17 grain and grain products to export positions in Western  
18 Canada based on a just and reasonable rate level; secondly,  
19 continuance of the existing level of freight charges  
20 to farmers on grain and grain products moving to  
21 export positions in Western Canada; third, recognition  
22 of the national obligation to Western agriculture by  
23 crediting the railways with the difference between a  
24 just and reasonable rate level and the prescribed  
25 statutory rate level so that the present burden is not  
26 confined to the railways and their other shippers.

27 Q. Then, Mr. Crump, what about the method of  
28 carrying out your solution?

29 A. There remains the question of what method  
30 can best be used to carry out the solution. A number  
31 of methods could be suggested for the payment of the





1  
2 difference between a just and reasonable level and the  
3 prescribed statutory level for the movement of Western  
4 Canadian grain and grain products to export positions.  
5 However, the method to be adopted should be one which  
6 meets the following principles:

7 First, the true purpose of the payment will be  
8 easily recognized, namely assistance by the people of  
9 Canada to the grain growing community of Western Canada  
10 in recognition of its major part in the national economy  
11 and of its need for assistance to overcome difficulties  
12 in marketing grain and grain products. The proposed  
13 assistance to western agriculture is not and must not  
14 appear to be a subsidy to the railways;

15 Second, the method should be as simple as  
16 possible with the cost of computing and making the pay-  
17 ment kept to the minimum;

18 Third, payment of the assistance should be  
19 made in such a manner as to eliminate continuing con-  
20 troversy;

21 Fourth, the rights of all parties of interest  
22 must be adequately safeguarded.

23 MR. SINCLAIR: Mr. Chairman, members of the  
24 Commission, Canadian Pacific has shown in evidence that  
25 a just and reasonable rate level for the movement of  
26 grain and grain products to export positions in Western  
27 Canada would be double the existing statutory grain rate.

28 Q. The question I wish to put to you, Mr.  
29 Crump, is that in the light of that evidence that has  
30 already been introduced and is before the Commission for  
their consideration, in the light of that doubling of







1  
2 the existing level to bring about adequate compensation  
3 to the railways, what are your comments, having in  
4 mind the principles that you have given?

5 A. The solution I have referred to previously  
6 is basically that assistance to the Western grain growers  
7 of 50 per cent of a just and reasonable rate would be  
8 provided by the people of Canada. This measure of  
9 assistance is not out of keeping with the requirements  
10 of the grain growing industry in the existing economic  
11 situation. Nor is it out of keeping with assistance  
12 provided to other Canadian industry that has exceptional  
13 circumstances. The Canadian manufacturing industry  
14 is protected by the customs tariff. Other examples  
15 are special dumping duties on fresh fruit and vegetables  
16 and products of the textile industry.

17 MR. SINCLAIR: Mr. Chairman and members of the  
18 Commission, in paragraphs 81, 82 and 83 of the submis-  
19 sion of Canadian Pacific to the Commission, which is at  
20 pages 26 and 27 of Exhibit 47, reference is made to  
21 freight rate assistance to the coal industry in  
22 Western Alberta and Eastern British Columbia and to the  
23 livestock producers on the British Columbia coast.

24 Q. Mr. Crump, you are familiar with that  
25 part of the Canadian Pacific's submission to this  
26 Commission, and I would ask you for your comments in  
27 the light of the facts there set out.

28 A. The freight rates and the amount of  
29 assistance have been supplied by the Traffic Department  
30 of Canadian Pacific. What I wish to draw to your  
attention is that the freight rate assistance provided





1 to the coal industry to assist it in exporting coal to  
2 the Far East ranges from approximately 84% to 93% of  
3 transportation charges, which would otherwise be a cost  
4 of the coal industry. In the case of the British  
5 Columbia livestock industry, the assistance is over 60%.  
6 In both cases, the assistance now given these industries  
7 is greater than Canadian Pacific proposes the Commission  
8 should recommend for Western Canadian grain growers.

9 Q. What is an important factor, Mr. Crump, in  
10 your opinion, in the consideration of the method to be  
11 adopted for the assistance you have mentioned today?

12 A. It is of the utmost importance that the  
13 method adopted to provide the proposed freight rate assis-  
14 tance to the Western Canadian grain growers should be a  
15 method that does not overstate the cost of that assistance  
16 to the national treasury. If the proposal of Canadian  
17 Pacific had been in effect in 1958, the total cost to the  
18 national treasury and through it to the people of Canada,  
19 would have been less than \$20 million.

20 Q. Mr. Crump, in making that statement have you  
21 in mind both the C.P.R. and the C.N.R.?

22 A. Yes, the total cost to the national  
23 treasury for both companies would have been less than  
24 \$20 million.

25 Q. Yes. How did that arise?

26 A. This arises from the fact that only  
27 one-half of the increased revenues from the movement of  
28 grain at a just and reasonable rate would have become  
29 part of Canadian Pacific net income because of the  
30







1  
2 payment of income tax. In the case of Canadian National,  
3 it would have reduced the amount otherwise paid by the  
4 national treasury to meet the deficit of that railway.

5 Q. Mr. Crump, is there any other factor of  
6 basic importance you wish to draw to the attention of  
7 the Commission in regard to this matter of a just and  
8 reasonable level of your remuneration to the railways  
9 for the movement of export grain in Western Canada?

10 A. Canadian Pacific is firmly of the view that  
11 Canadian industry, unless exceptional circumstances  
12 pertain, can afford to pay just and reasonable trans-  
13 portation charges which will provide for a healthy  
14 transportation industry operating under efficient manage-  
15 ment. The proposed freight rate assistance for Western  
16 grain growers is not and must not appear to be a subsidy  
17 to the railways. Any method of payment of the assis-  
18 tance that would lead to any misunderstanding in this  
19 regard is most undesirable in the national interest.

20 Q. In your opinion, Mr. Crump, has there  
21 been misunderstanding that you have seen or felt of the  
22 position of Canadian Pacific in regard to this problem  
23 of western Canadian grain rates?

24 A. For some time substantial misunderstanding  
25 seems to have been created by the issue of the statutory  
26 grain rates and the position of Canadian Pacific in  
27 regard to these rates. Continuing controversy is not in  
28 the best interests of either the railways or the Western  
29 grain growers. The importance of putting an end to  
30 this controversy has been recognized by the appointment  
of the Commission and Canadian Pacific welcomes the





1  
2 interest of the Commission and its staff in the solution  
3 of the problem of the statutory rates on grain. The  
4 method of payment of the proposed assistance should be  
5 such as will avoid provoking continued controversy.

6 The specific method of payment of the assis-  
7 tance to Western grain growers should enable a  
8 continuing review of the amount of the difference  
9 between the statutory rate level and a just and reason-  
10 able level by an impartial tribunal and its experts.  
11 The Board of Transport Commissioners fills this need.

12 Q. Mr. Crump, I think this question has  
13 arisen -- I know it has arisen in some of the evidence  
14 that has already been presented, and questions have been  
15 raised by members of the Commission as to the proportion  
16 of the western grain crop that is carried by Canadian  
17 Pacific. Can you give that information to the  
18 Commission, please, Mr. Crump?

19 A. Well, generally speaking, Canadian Pacific  
20 carries about 55 per cent of the western grain crop to  
21 export positions and the Canadian National about 45 per  
22 cent.

23 Q. And in the light of that, is that of  
24 importance as you see the situation, Mr. Crump?

25 A. Well, therefore, the method of payment  
26 should give full recognition to this fact. The method  
27 should also be such that cost associated with the  
28 payment should be kept to an absolute minimum.

29 Q. Mr. Crump, what is the specific proposal  
30 of Canadian Pacific as to the method of payment of the  
assistance that you have stated the company believes







1  
2 the western shippers require?

3 A. The specific proposal of Canadian Pacific  
4 as to the method of payment of the assistance to the  
5 western grain growing industry is one related to income  
6 tax. The Income Tax Act has for many years been used  
7 as a vehicle for meeting national obligations and im-  
8 plementing national policies. Through income tax the  
9 true dollar amount of the assistance is readily  
10 established. In paragraphs 79 and 80 of the Submission  
11 of Canadian Pacific to the Commission is set out a pro-  
12 posed amendment to the Railway Act which would carry  
13 out the proposal of Canadian Pacific and the method that  
14 Canadian Pacific believes is the method which will give  
15 proper recognition to all the principles previously  
16 outlined.

17 MR. SINCLAIR: Now, Mr. Chairman and members  
18 of the Commission, on December 5th Canadian National  
19 considered it necessary to give the Commission a pre-  
20 pared statement on the reasons why it did not agree  
21 with the proposal of Canadian Pacific as to the method  
22 of this carrying out of the solution that the railways  
23 have presented to the Commission.

24 (Page 3825 follows)  
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1  
2 It seemed to me, sir, that the Commission would  
3 wish to have the views of Canadian Pacific in regard  
4 to the points so raised by Canadian National and  
5 which are set out in Volume No. 11, commencing  
6 at page 1358 and following.

7 THE CHAIRMAN: We would like to have that.

8 MR. SINCLAIR: In anticipation of that, sir,  
9 we have prepared the statement, and I would ask to  
10 have this taken into the record. I do not wish  
11 to have it filed as an exhibit, but Mr. Crump has  
12 a copy and he will read it. I have copies for  
13 the Commission and the numbers they require and also  
14 copies for all of my friends.

15 MR. FRAWLEY: This is rebuttal.

16 MR. SINCLAIR: I would say that this is  
17 the views of Canadian Pacific in regard to the  
18 points that are set out in the record.

19 THE CHAIRMAN: As prepared by Mr. Gordon.

20 MR. SINCLAIR: Yes; Mr. Gordon was the  
21 spokesman for Canadian National on these points.

22 I think possibly it would be of assistance  
23 to the Commission and to my friends, indeed, to  
24 have Mr. Crump just read this statement as it deals,  
25 I think, with all of the points that at least we  
26 feel are of substance in the views expressed by  
27 Mr. Gordon. Of course, if we have missed any of  
28 them we will be glad to have them brought to our  
29 attention, but I think it does cover them all,  
30 although probably not quite in the same order as  
they were dealt with by Mr. Gordon.







1  
2 So, therefore, Mr. Crump, would you then,  
3 please, in the light of what was stated by Canadian  
4 National on December 5th concerning the proposal  
5 of Canadian Pacific, deal with the points raised then  
6 by Canadian National.

7 THE WITNESS: In answer to Mr. Dickson  
8 (Vol. II, p. 1371) Mr. Gordon made it clear that  
9 if both railways were in a taxable position the  
10 result of the Canadian Pacific proposal would be the  
11 same as that of Canadian National. On the following  
12 page he made clear that the reason he was adopting  
13 his method was because of the fact that Canadian  
14 National was in a non-taxable position. Mr. Gordon  
15 in his evidence (Vo. II, p. 1362) stated that the  
16 Income Tax Act applies to Canadian National in the  
17 same way it does to any corporation, but he also  
18 stated that Canadian National had not in fact paid  
19 any income tax since it became liable to do so in  
20 1952.

21 MR. SINCLAIR: If I may interrupt for a  
22 moment, the Commission will remember that Mr. Gordon  
23 stated that there were some one or two years, he  
24 said, in which he said there would have been taxable  
25 income but for the provisions of the income tax  
26 and their reference to carry forward and carry  
27 back.

28 Yes, Mr. Crump.

29 THE WITNESS: It seems that the position  
30 of Canadian National is based upon an assumption that  
31 it does not expect to contribute to national burdens





1  
2 through the payment of income tax, as does Canadian  
3 Pacific. I think that this is an entirely  
4 unwarranted and unduly pessimistic view because of  
5 the very large capital sums that have been applied  
6 to the Canadian National physical plant in the last  
7 ten years and the tremendous advantages these large  
8 capital sums have given to the Canadian National  
9 system. I can say quite frankly that I believe  
10 Canadian National has a physical plant second to  
11 none.

12 I am in full agreement with the position  
13 of Canadian National as set out in the last  
14 sentence of paragraph 12, page 5, of their individual  
15 submission (Exhibit 46) where it is said:

16 "Such additional recompense as the  
17 railways are entitled to over and above  
18 the rates presently paid by the farmers  
19 shipping this grain should be calculated  
20 and paid on some reasonable commercial  
21 basis".

22 Obviously what the Canadian National had  
23 in mind at the time this was written was a payment in  
24 the normal commerce or trading sense, that is, as  
25 a matter of profit and loss.

26 Canadian Pacific recognizes that  
27 efficiency is dependent upon the incentives implicit  
28 in the profit and loss or commercial basis of business,  
29 that is the commercial approach. It recognizes that  
30 the incentive of profit and fear of the  
31 consequences of a loss are most necessary in







1  
2 developing efficiency in business and are  
3 particularly necessary in the railway business.

4 I must make it clear that I think Canadian  
5 National, in reference to the Canadian Pacific  
6 proposal, has fallen into basic error, which runs  
7 throughout Mr. Gordon's statement. This error is  
8 a failure to distinguish between a payment to the  
9 railways from shippers and a payment to the railways  
10 by the Treasury by way of assistance to shippers.  
11 Of course, if the government were the shippers of  
12 grain, then the money received should be received by  
13 the railways as gross revenues. It is true that  
14 when the government is a shipper it pays normal rates,  
15 as Mr. Gordon noted (p. 1365, Vol. II) but Mr.  
16 Gordon said:

17 "I see no more reason why services  
18 performed in hauling grain should be  
19 netted while payments for other services  
20 are not."

21 This points up the fundamental error referred  
22 to, namely, the difference between payments to the  
23 railways by the government as a shipper and payments  
24 to the railways by the government by way of  
25 assistance to shippers.

26 I agree with the Canadian National comment  
27 that the special income tax provisions that I have  
28 referred to, and I am quoting Mr. Gordon:

29 "are directly related to specialized  
30 problems"





1  
2 (p. 1364, Vol. II). Obviously the situation of  
3 the western grain growers and the need for action  
4 in respect to the compensation the railways receive  
5 for moving grain to export positions is a  
6 specialized problem. In addition to the obvious  
7 reasons, including the fact that the assistance  
8 should not be overstated, there is a reason which  
9 is sometimes overlooked. I have in mind the fact  
10 that Canadian Pacific as a private enterprise is  
11 in direct and active competition with a nationalized  
12 industry, namely, Canadian National. Recognition  
13 of this fact requires that the position of Canadian  
14 Pacific be protected in any payments made to the  
15 railways by the National Treasury by way of  
16 assistance to western grain growers.

17 If the method used solve the western  
18 Canadian grain rate problem should operate so as  
19 to reduce the incentive of Canadian National to be  
20 in a taxable position, it will adversely affect  
21 Canada, its shippers and Canadian Pacific. Canadian  
22 Pacific's position will be adversely affected in  
23 two ways: as a competitor of Canadian National  
24 and as a taxpayer. I disagree that the proposal  
25 of Canadian Pacific would result in Canadian  
26 National receiving, as stated by Mr. Gordon,

27 "only 50 per cent of the compensation  
28 it would be entitled to"

29 (p. 1361, Vol. II). Canadian National certainly  
30 is not entitled to a dollar more than the Canadian







1  
2 Pacific for moving a car of grain a similar distance  
3 to export positions in western Canada. The fact  
4 that Canadian Pacific is taxable and must remain  
5 so should not be allowed to be used by its competitor  
6 to the end that its competitor would receive in  
7 effect two dollars for every dollar received by  
8 Canadian Pacific on the largest single segment of  
9 railway traffic.

10 I disagree with the Canadian National  
11 statement that "the question of whether a company  
12 pays or does not pay income tax has no relationship  
13 to the amount of compensation it should receive for  
14 its service nor has it any logical place in  
15 calculating that amount" (p. 1360, Vol. II). Taxes  
16 are an expense and are included in determining cost.  
17 If income tax is taken into account in determining  
18 cost, then it must be a factor in determining the  
19 level of the compensation to be paid.

20 I cannot state too strongly my disagreement  
21 with the Canadian National statement that the Canadian  
22 Pacific proposal "could be construed as a device  
23 to hide subsidization to the shippers" (p. 1362,  
24 Vol. II) and the Canadian National statement that I  
25 put along with it that the proposal of Canadian  
26 Pacific "understates the amount of assistance given  
27 to grain growers and therefore is misleading" (p. 1365,  
28 Vol. II).

29 If the payment to the railways was on a gross  
30 revenue basis a misunderstanding could not be  
avoided. Only by reducing the amount to its true





1  
2 dollar amount through application of income tax  
3 before payment will the burden on the people of Canada  
4 be clearly defined. There are undoubtedly a number  
5 of people in Canada who know that the corporate tax  
6 rate is fifty per cent but there are many millions  
7 of Canadians who do not know this fact or if they know  
8 it would not think of it when they heard of the  
9 payments being made to the railways by way of  
10 assistance to western grain shippers.

11 As to the Canadian National suggestion  
12 that the assistance to be paid on behalf of the  
13 western grain growers under the Canadian Pacific  
14 proposal is hidden, I do not know how the fact that  
15 the amount is overstated (and that is a fact when it  
16 is paid on a gross basis) makes it more in the open  
17 or less hidden than when the true amount of the  
18 payment is arrived at through the income tax proposals  
19 of Canadian Pacific.

20 In my view the Canadian National proposal  
21 would not adequately protect the interest of the  
22 parties and would result in Canadian National  
23 receiving more than it is entitled to for handling  
24 grain.

25 MR. SINCLAIR: That is the evidence, Mr.  
26 Chairman, and members of the Commission, that Mr.  
27 Crump has for the Commission at this time.

28 THE CHAIRMAN: Mr. Cooper?

29 CROSS-EXAMINATION BY MR. COOPER:

30 Q. Mr. Crump, you have referred in your







1  
2 evidence to heavy capital expenditures to improve  
3 facilities and bring about economies in operations  
4 made by Canadian Pacific. That reference is on  
5 page 3 of your precis of evidence, and the specific  
6 evidence to which I have reference is;

7 "Despite heavy capital expenditures to  
8 improve facilities and bring about  
9 economies in operations and in spite of  
10 a substantial increase in revenue ton-  
11 miles, the financial position of Canadian  
12 Pacific has deteriorated."

13 Would you please tell the Commission, Mr.  
14 Crump, what steps are now being taken by Canadian  
15 Pacific to improve these rail facilities and to  
16 effect economies in operations.

17 A. Well, of course, first of all,  
18 perhaps, in importance is the dieselization program  
19 as a result of heavy capital expenditure. That  
20 has been going on for a number of years, and I  
21 think everyone is well acquainted with that  
22 program. Incidentally, we anticipate that, given  
23 roughly the same traffic conditions in 1960 that  
24 we had in 1959, the full dieselization of the  
25 Canadian Pacific will be completed in 1960.  
26 Traffic swings, of course, will have some effect  
27 on that. Beyond that, we, of course, are carrying  
28 out a planned program that we have had over many  
29 years in such matters as signals on roadways, C.T.C.  
30 installations, increasing the inventory of maintenance-





1  
2 of-way machines, something that has not particularly  
3 been noticed over the past few years. But there has  
4 been a heavy program, particularly since World War  
5 II, doing way work wherever economic by roadway  
6 machines. That has been quite a major program.  
7 Of course, there are all of the other numerous  
8 items which go from our capital expenditures:  
9 freight equipment, I think, this year is getting  
10 better, and specialized types of equipment. There  
11 are many such examples that could be quoted.

12 Q. Would you care to touch on any other  
13 measures which the railway is taking, Mr. Crump,  
14 or does that, you consider, answer the question?

15 A. No. If it relates to the heavy  
16 capital expenditures and to bring about economies,  
17 I think perhaps one of the major changes made in  
18 the past year - and it was a major change - was the  
19 reorganization in our operating personnel. That  
20 was designed to bring about economies in the  
21 operations, besides, of course, the capital  
22 program. I might also give another  
23 outstanding program that has been underway on  
24 Canadian Pacific for the past three years, and  
25 that is the integrated data processing whereby  
26 with the use of electronic computers, the so-  
27 called electronic brain, we hope to eliminate a  
28 good deal of the paper work and streamline some  
29 of our accounting procedure. That, in itself,  
30 required a great deal of research work, and is  
31 progressing ~~very well~~, but it takes some time to







1  
2 learn how to use these new techniques as applied  
3 to our far-flung system extending from coast to  
4 coast.

5 Q. You have stated in your evidence,  
6 Mr. Crump, that railways weresuch an effective  
7 instrument in populating and developing various  
8 parts of Canada that in certain areas the  
9 expansion of railways was carried beyond the  
10 point of economic justification. Now,for the  
11 information of the Commission, would you just state  
12 at what period of time did the over-building in  
the railway industry take place?

13 A. Well, I would say approximately from  
14 the turn of the century until about 1920.

15 Q. What is the situation today? Do  
16 you consider that the railways have excess  
mileage today in Canada?

17 A. Well, certainly we have not excess  
18 mileage today in Canada, in the manner in which  
19 we had it in 1920. Having in mind the changing  
20 needs for the plant, there may well be excess  
21 mileage, but I would not think it would be very  
22 great at this time. With the expanding economy  
23 of Canada, the tremendous or, what has been termed,  
24 explosive growth of population, I think perhaps  
Canada has grown into its railways.

25 Q. According to your evidence, Mr.  
26 Crump, the net investment of Canadian Pacific  
27 in its rail transportation system has grown from  
28 \$950 million at the end of 1946 to \$1,440 million  
29  
30





1  
2 at the end of 1958. What has been the increase  
3 in non-rail investment in the same period? Could  
4 you give us that figure?

5 A. Non-rail? I have the rail  
6 investment here. I am afraid I haven't got the ---

7 MR. COOPER: I think my friend Mr.  
8 Sinclair is nodding his head in assent to an  
9 unexpressed request from me that it be supplied.

10 THE WITNESS: We will prepare it, Mr.  
11 Cooper.

12 MR. COOPER: Q. You mentioned also  
13 throughout your evidence and throughout the precis  
14 competition from other media of transportation,  
15 and to deal with the matter in one context, perhaps  
16 you would be good enough to look at page 4 of your  
17 precis of evidence, and you will see there that  
18 you have referred to the area of competition as  
19 having increased in the sense in which you use those  
20 words there, and also to competition from other  
21 media of transport, and you state that the area  
22 of competition has increased particularly from  
23 motor trucks.

24 (Page 3840 follows)  
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26  
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1  
2 I assume also, and you will correct me if I  
3 am wrong, Mr. Crump, that competition has increased  
4 from pipe lines and air movements of freight, and also  
5 from water transportation; is that correct?

6 A. Very markedly so, Mr. Cooper; it is not  
7 confined to highways. Now, if I might just give one  
8 or two figures in that respect.

9 Q. Certainly, Mr. Crump.

10 A. Because I think they are very significant.  
11 The statement has to do with the distribution of inter-  
12 city freight ton miles, and the period which I have  
13 here -- this is, of course, DBS authority -- the state-  
14 ment I have here indicates that in 1948 the railways  
15 had -- I will leave off the decimal points -- 71 per  
16 cent of the intercity ton miles in this country and  
17 that by 1957, which was the last year available, this  
18 percentage had decreased to 54 per cent.

19 Now, highways in that same period increased  
20 from 4.9 per cent in 1948 of the intercity freight ton  
21 miles to 6.4 per cent in 1957. Now, this is the  
22 figure that is available from DBS, and whether it  
23 reflects fully the movement of freight by highway  
24 may be open to some conjecture.

25 However, the increase by inland waterways  
26 has been relatively constant, moving only from 23.9  
27 per cent in 1948 to 24.1 per cent in 1957.

28 A very significant movement which has taken  
29 place is in pipe line operation, when in 1948 it was  
30 so small as to be negligible, less than one per cent,  
and the figure, as a matter of fact, given by DBS in





1  
2 1950 is 1.7 per cent, but it has advanced in 1957 to  
3 14.8 per cent, the intercity ton miles.

4 THE CHAIRMAN: Would you for the record  
5 just indicate what you mean by "intercity traffic"?

6 THE WITNESS: Well, all traffic handled  
7 between cities as compared to local delivery within  
8 urban centres. In other words, it is movement of  
9 goods within the country, not from house to house or  
10 within an urban area, but from one city to another.

11 MR. COOPER: Q. What of the future, Mr.  
12 Crump, if you can say with respect to this matter of  
13 pipe lines?

14 A. As regards pipe lines?

15 Q. Yes.

16 A. I should think that percentage will con-  
17 tinue to grow; perhaps not at the rapid rate that it  
18 has over the past ten years, but there will be some  
19 growth as great shifts are made in our economy, having  
20 in mind the fact that in many instances this tremendous  
21 consumer, Mr. Public, has switched from coal to oil in  
22 domestic heat and that he may well switch to natural  
23 gas; all of these shifts that will take place in the  
24 future will have an effect on this proportion by  
25 pipe line.

26 Q. Would you expect, then, that proportion  
27 to increase to some degree?

28 A. I would think so.

29 Q. I suppose one of the most significant  
30 developments in water transportation has been the  
31 construction of the St. Lawrence Seaway. Perhaps you







1  
2 would care to indicate to the Commission, Mr. Crump,  
3 your views as to the significance of the St. Lawrence  
4 Seaway in the transportation picture in Canada as it  
5 affects the railways?

6 A. Well, I think the St. Lawrence Seaway  
7 is going to have a very great effect on the movement  
8 of goods within Canada and from foreign sources.

9 The Seaway has just completed its first year  
10 of operation. We have carried out fairly extensive  
11 studies in regard to the seaway for the past few years  
12 and I must say that at this time the situation is  
13 somewhat obscure.

14 There were unusual circumstances in 1959 in  
15 the seaway, but I don't think there is any doubt but  
16 that the seaway will have an effect and that that  
17 effect probably will show up in this intercity ton  
18 miles by inland waterways as the years go on.

19 Certainly, we have a section of our traffic  
20 which is susceptible to seaway competition, but I think  
21 it is too early yet to really assess what the seaway  
22 is going to do to us or what it is going to do to Canada.

23 Q. Well, now, the next question to which I  
24 wish to direct your attention and on which I would like  
25 your views for the Commission, is that on movements of  
26 freight by air cargo. Do you consider that movements  
27 of freight by air cargo will significantly increase  
28 in the foreseeable future?

29 A. Well, on this statement which I quoted  
30 from, DBS, there is as yet no percentage of the intercity  
31 ton miles assigned to air cargo because it is not yet





1  
2 significant enough to be included. However, I think it in  
3 future will become and, as a matter of fact, to a degree  
4 has already become in certain specialized fields, a  
5 competitive factor, and that this factor will increase  
6 in significance.

7 I have in mind that possibly between 1965  
8 and 1970, the last half of this decade, probably will  
9 show a development of air cargo that will surprise  
10 many people. It has already happened -- this is for  
11 the information of the Commission, if you didn't happen  
12 to notice it -- that an aeroplane has been built in  
13 Canada that will take 32 tons in one piece, 87 feet  
14 long, and fly it 400 miles an hour for eight hours to  
15 deliver it.

16 Now, of course, they have got to get their  
17 costs down, and the air transport industry is working  
18 very hard at that.

19 Q. You consider that these costs will come  
20 down to a point where very serious -- if I may put it  
21 that way -- competition will be offered the railways  
22 in the foreseeable future?

23 A. I would think in the foreseeable future;  
24 not immediately, but in the foreseeable future the air  
25 transport industry will have their costs down to the  
26 point where air cargo will become an appreciable com-  
27 petitive factor.

28 Q. You referred also in your evidence, Mr.  
29 Crump, and for your convenience perhaps you could look  
30 at page 4 of your precis of evidence, to the time lag  
in having general revenue cases heard and freight rate







1  
2 increases which were authorized, made effective. What  
3 steps do you consider could or should be taken to shorten  
4 this time lag?

5 A. This time lag in reference to the general  
6 revenue cases?

7 Q. Yes, Mr. Crump.

8 A. Well, I think that if the needs of the  
9 railways were fully recognized and the cases were set  
10 down promptly for hearing and were carried through,  
11 shall I say, with the least possible amount of verbiage,  
12 that it would be of tremendous assistance. You must  
13 recognize, though, that freight rate cases, and what I  
14 was getting at here, freight rate cases that have had  
15 an appreciable time lag, and the maximum, as I recall,  
16 was in the 1947 case, which was about two years, whereas  
17 our wage increase, which is the primary motive power of  
18 our increasing costs, are ordinarily made retroactive,  
19 and those two coming together create an exceedingly  
20 difficult situation for the railways.  
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1  
2 Q. The purpose of my question there, Mr.  
3 Crump, was to find out if your comment was merely  
4 with respect to delays there might be in the ordinary  
5 procedure, or whether perhaps you had something else  
6 in mind; namely, that the railways should not be  
7 subject to the degree of regulation to which they are  
8 subject at the present time generally and perhaps  
9 particularly in this matter of securing approval of  
10 rates in general revenue cases?

11 A. No. It was the time lag that I had  
12 primarily in mind, not the question of regulation,  
13 because I do not think that regulation could ever be  
14 removed from the railways in this country.

15 Q. Also on page 4 of the precis you refer  
16 to substitute products. Perhaps I need not read the  
17 whole sentence ---

18 ". . . and in certain instances traffic volume  
19 has been reduced through the introduction of  
20 substitute products or competition from foreign  
21 products."

22 Now, I am a little puzzled in my ignorance of the  
23 expression "substitute products." I wonder if you  
24 would be good enough to tell the Commission what you  
25 had in mind in the use of those words?

26 A. Well, I can give an example of that.  
27 Not only has rail traffic been subject to this competition,  
28 but also trucks. An example of it the market in Western  
29 Canada for rubber footwear, which is almost entirely  
30 supplied from Japan. But, actually, the rubber foot-  
wear industry of Canada, particularly the canvas rubber







1  
2 footwear industry of Canada, has been impinged upon  
3 tremendously by the Japanese products that have been  
4 imported from Japan

5       There are other examples and, again, I do not  
6 want to get into any dissertation here, but I would  
7 think that unless we in Canada can arrest what might be  
8 termed a high cost economy in producing goods, that that  
9 displacement by foreign competition will steadily become  
10 worse.

11       We see many examples of it now, and another  
12 example is the importation of foreign steel which has  
13 received a good deal of notoriety recently, and as a  
14 matter of fact we have seen so much in the newspapers  
15 recently in that regard that I took the trouble to  
16 check on this famous case of barbed wire, where barbed  
17 wire is being laid down in Duluth at \$45 a ton less than  
18 made in Duluth. In our case, it is about \$34 a ton  
19 less than it can be made in Canada.

20       There are other examples that can be given,  
21 and I am now speaking on the broad basis, Mr. Cooper,  
22 of the Canadian economy, and I feel that that is the  
23 great danger that we have to face in this country.

24       Q. The examples you have given, I think,  
25 relate particularly to foreign competition.

26       Now, are you coupling with that the expres-  
27 sion "substitute products"?

28       A. Well, there is a great change taking  
29 place there, too. It is rather difficult to discern.  
30 One might say that aluminum replaces steel, but at the  
moment stainless steel is gaining on aluminum; and oil





1  
2 replaces coal in many instances. Now, natural gas  
3 is gaining on oil. It is a constant shift in this mix  
4 of freight traffic that we handle.

5 Q. That creates a problem, I gather, per-  
6 haps only of short duration, though, from what you have  
7 just said?

8 A. No, I think this probably will continue  
9 in the foreseeable future because of the rapid techno-  
10 logical advances that are being made.

11 Q. You may have already answered this ques-  
12 tion in part, Mr. Crump, and your reference to techno-  
13 logical advances perhaps points the question up. What  
14 technological improvements do you anticipate will be  
15 made in the railway industry in the near future? You  
16 have already touched on that point, but if you have  
17 anything further to add to it I am sure the Commission  
18 would be very interested to hear of the technological  
19 developments that are taking place in the railway  
20 industry and may be expected to take place within  
21 the next few years?

22 A. Well, we have practically got full  
23 advantage of the major changeover which took place  
24 from steam to diesel. That was about as large a job,  
25 I think, as was ~~under~~ undertaken by any industry in that  
26 time. It was a tremendous changeover. It required  
27 changes to plant, changes to organization, and changes  
28 throughout the railway industry.

29 At the moment, I cannot see a change of that  
30 proportion in the immediate future. There will be many  
smaller changes, but not a change of that major







1  
2 proportion.

3 Now, it has been commonly suggested that  
4 perhaps we will go from diesel to gas turbines. Well,  
5 gas turbines are being used on this continent very  
6 slightly, but the road that is using them happens to  
7 have a traffic pattern that lends itself to gas tur-  
8 bines, whereas here in Canada it does not.

9 Again, in Europe, in Japan, you will find the  
10 railways are electrified. They have a density of  
11 traffic there that warrants electrification. Even with  
12 the pipe line forecast that we have in Canada, I cannot  
13 see that electrification will be warranted in Canada  
14 in the foreseeable future. But, apart from that, the  
15 electronic developments that are taking place, of  
16 course, are being utilized and will be utilized. It  
17 is difficult to say what will develop because, using  
18 this modern nomenclature, "breakthroughs" are being made  
19 so frequently that at this time I do not think I would  
20 like to go beyond that.

21 Q. I had in mind the use of electronic  
22 equipment in the work of a train dispatcher, things of  
23 that nature?

24 A. That will be increasingly used. That is  
25 not a new development. That is CTC. Certainly that  
26 programme is continuing, and will continue.

27 Q. Page 9 of your precis at the second  
28 paragraph, you refer to the matter of construction of  
29 new branch lines, and I would like to ask you, Mr.  
30 Crump, what is the policy of the Canadian Pacific with  
respect to the construction of new branch lines?





1  
2 THE CHAIRMAN: Well, Mr. Cooper, that is a  
3 new subject and one of some size. I think we might  
4 very well adjourn now until ten o'clock tomorrow  
5 morning.

6 One thing I have in mind, while I would not  
7 ask at all that counsel restrict cross-examination, I  
8 think that Mr. Mauro must leave tomorrow afternoon and  
9 we must also have an argument on the motion tomorrow  
10 afternoon, which we have heard considerable about  
11 already, and probably may not be repeated at very great  
12 length, but I would suggest that perhaps tomorrow we  
13 might sit until twelve-thirty instead of twelve, and  
14 give everybody a chance for cross-examination.

15 We will now adjourn until ten o'clock to-  
16 morrow morning.

17 ---Adjournment.  
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*W. McEwen*

# ROYAL COMMISSION

ON

# TRANSPORTATION

## HEARINGS

HELD AT

OTTAWA

VOLUME No.:

DATE:

**27**

**JAN 26 1960**

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
the Court Room, Board of Transport  
Commissioners Offices, Ottawa,  
Ontario, on the 26th day of  
January, 1960.

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Ottawa, Ontario,  
January 26, 1960.

---On commencing at 10:00 a.m.

THE CHAIRMAN: Will you come to order,  
gentlemen, please.

CRUMP, NORRIS ROY, resumed.

THE CHAIRMAN: Mr. Cooper?

CROSS-EXAMINATION BY MR. COOPER, cont'd.

Q. Mr. Crump, when we adjourned yesterday I had just put a question to you relating to the construction of new branch lines, and my question is this: on page 9 of your precis at the second paragraph you refer to the matter of construction of new branch lines. I would like to ask you, Mr. Crump, what is the policy of the Canadian Pacific with respect to the construction of new branch lines?

A. Over the past few years construction of new branch lines has not been very great, but there have been a number of short lines constructed, always with the purpose of servicing a newly established industry. These are principally resource industries; mines and chemical plants, and that sort of thing and, of course, before the construction is undertaken we must satisfy ourselves that it will be a profitable venture.

Q. In that connection do you obtain any guarantees from any industries as to the amount of traffic it will move over the line, or anything of that nature?







1  
2 A. Yes, we have. It depends upon the  
3 circumstances in the case. Where a project may appear  
4 to be somewhat marginal, then we will frequently work  
5 out a guarantee with the industry, but in some cases  
6 where there is no doubt of the traffic, why, we have  
7 gone ahead on our own without the guarantee. However,  
8 we have been reasonably satisfied that it would be  
9 a profitable operation.

10 Q. Thank you, Mr. Crump. What are your  
11 views as to the possibility of the railways increasing  
12 passenger traffic, or at least arresting the present  
13 downward trend?

14 A. I doubt whether the present downward  
15 trend can be arrested. However, there are areas  
16 where passenger traffic can be made profitable, and  
17 it has been the policy of the Canadian Pacific for  
18 sometime now to alter our services where we could to  
19 a profitable basis, and to eliminate the unprofitable  
20 service. Taking your question on the overall basis,  
21 how far the downward trend will continue, I don't know,  
22 but I think it is bound to continue.

23 Q. You said in your direct evidence, Mr.  
24 Crump, that another unique feature of the railway  
25 industry is the extremely high labour content in  
26 railway operating expenses. In 1958, 55 per cent  
27 of railway revenues went to meet labour costs. The  
28 reference in that statement of yours, Mr. Crump, is  
29 page 9 of the precis and page 3783 at line 15 of the  
30 transcript of yesterday's proceedings.

Now, I understand that labour costs, as you





1  
2 have used the expression there, includes wages,  
3 pensions and benefits?

4 A. Yes it does because all of the fringe  
5 benefits are a direct cost to the railway and  
6 consequently, in my expression "high labour content"  
7 I include not only wages, but fringe benefits such  
8 as you have mentioned, pensions, paid vacations  
9 and all of the fringe benefits of that type.

10 Q. Has that percentage in recent years  
11 increased?

12 A. Yes, it has and, of course, particularly  
13 since 1946 when we first started the round of wage  
14 increases that has continued since. There was, of  
15 course, some increase in labour content during the  
16 war, but the marked increase commenced in 1946 and  
17 that percentage has gone from, in 1946, 48 per cent  
18 to 55 per cent in 1958.

19 Q. On page 10 of your precis, Mr. Crump,  
20 these words appear, "the pricing characteristics of  
21 railway transportation have changed markedly." Could  
22 you tell us what are the changes which have occurred  
23 in pricing characteristics of the railways?

24 A. Well, I would think the best description  
25 of that, Mr. Cooper, would be that the range within  
26 which we apply the "value of service" principle, has  
27 been narrowed by the extreme pervasiveness  
28 of competition and we have, therefore, had to work more  
29 within the simple narrow range of value of service  
30 than we had done previous to the rest of this  
intensive competition.







1  
2 Q. Would it be fair to say, Mr. Crump,  
3 that the value of service principle has lost, in  
4 some degree at least, its validity.

5 A. Well, certainly, I don't know that it  
6 has lost of its validity; it is still necessary that  
7 we use it in our pricing. Shall I say that there  
8 are other tests arising that as time goes on we  
9 will probably use, but I don't think that the value  
10 of service principle will entirely be discarded at  
any time.

11 Q. What are the principles do you consider  
12 will be used, Mr. Crump?

13 A. Well, of course, the most important  
14 would probably be the cost of service, and with the  
15 new techniques that are being developed, the new  
16 means of carrying out these techniques, they will  
17 provide another standard, but I don't think that  
18 it will entirely replace the value of service  
principle.

19 Q. I just have one or two more questions  
20 now, Mr. Crump, remaining, and they relate to the  
21 statement of Canadian Pacific under the heading of  
22 "Recommended solutions to enable the railways to  
23 secure revenues based on just and reasonable rates  
24 for movement of grain in western Canada to export  
25 positions while maintaining existing freight charges  
on grain to farmers."

26 Do you regard the proposed solution of  
27 Canadian Pacific to this problem, Mr. Crump, as  
28 offering a permanent solution to the problem of  
29  
30





1  
2 statutory grain rates?

3 A. I think it is permanent in this way,  
4 that until the situation of the western prairie  
5 farmer changes, that this is the only recourse  
6 we have. Now, what degree of permanency that is,  
7 I am sure I can't say because it will depend very  
8 largely on world conditions.

9 Q. Would you suggest that perhaps the  
10 rates for moving grain to export positions in western  
11 Canada might in some way be related to the price the  
12 farmer receives for his grain?

13 A. Well, since they are f.o.b. the  
14 Lakehead, there is some relation. Of course, beyond  
15 the Lakehead it becomes somewhat debatable, and there  
16 again you are up against the same proposition that  
17 the farmer in his selling price is up against -- a  
18 world condition, in other words. We have shipping  
19 rates, and that again can vary over tremendous  
20 ratings, particularly in grain.

21 Q. You wouldn't think, perhaps, it is  
22 possible, then, to relate freight rates for moving  
23 grain to the world price on wheat, or anything of  
24 that sort, the price that the farmer would receive  
25 under international wheat agreements or under any  
26 other agreements by which the price is fixed.

27 A. No, I don't think that is possible  
28 because even the free market price on grain is  
29 varying somewhat above the International Wheat  
30 Agreement price, and as I say, you have this factor  
which ranges over such a tremendous chain of world







1  
2 shipping rates and which must necessarily be included  
3 in there.

4 MR. COOPER: Thank you very much, those  
5 were all the questions I have.

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11 (Page 3860 follows)  
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2 THE CHAIRMAN: Mr. Mauro?

3  
4 CROSS-EXAMINATION BY MR. MAURO:

5 Q. My questions, Mr. Crump, will be  
6 largely directed towards the clarification of this  
7 material which is contained in the precis of the evi-  
8 dence you have given. I was interested in the questions  
9 of my learned friend Mr. Cooper concerning the possible  
10 changes in the basis of rate pricing, and you and I know  
11 there has been a considerable amount both said and  
12 written recently as to this matter of whether there  
13 is a shift from value of service to cost of service,  
14 and one authority that I spoke to said that perhaps  
15 the analysis might be a change in definition, that  
16 whereas before, and historically, value of service meant  
17 the value of the commodity, in present day technology  
18 the shift is to a definition of value of service to  
19 the effect that it is the value of the service per-  
20 formed.

21 Would you, Mr. Crump, agree there is this chang-  
22 ing concept?

23 A. I think perhaps to a degree there is  
24 some concept entering rate-making that might follow  
25 along your definition. I do not think it goes quite  
26 as far as you would indicate, and as a matter of fact,  
27 in referring to the British development I have had the  
28 opportunity of discussing this with Mr. Brian Robertson,  
29 the head of the British Transport Commission. I must  
30 say I was somewhat aghast at the complete liberty they  
have in fixing rates as between customers; and, of







1  
2 course, the value of this type of pricing, I think,  
3 can only be indicated in the results to the British  
4 Transport Commission, and we all know those.

5 Q. On that subject, Mr. Crump, for our  
6 information, I understand that in Great Britain today  
7 -- at least since around 1953 -- there is a greater  
8 tendency towards this so-called cost of service prin-  
9 ciple where the maximums and minimums are set on the  
10 rates and within that range, as you have mentioned,  
11 the railways are free to price their service?

12 A. Yes, there is that liberty in their  
13 pricing now. Personally, I am inclined, as I men-  
14 tioned, to doubt, with the history of our country, that  
15 it would work as well here. Inevitably when you  
16 ascribe different rates to customers at approximately  
17 the same distance, why, you could get into altercations.  
18 I must say that I do not entirely agree with what is  
19 being done in Britain at the moment.

20 Q. Mr. Crump, at page 1 of your precis, the  
21 second complete paragraph:

22 "The early history of Canadian Pacific shows  
23 the challenges met and the difficulties overcome  
24 in establishing the railway industry in Canada.  
25 The financial obstacles in the way of railway  
26 construction in the first few decades after  
27 Confederation were so severe that the Government  
28 found it necessary to offer inducements before  
29 private enterprise was prepared to accept the  
30 substantial risks involved. It will be re-  
called that an attempt to build a transcontinental





1  
2 railway as a Government enterprise failed."

3 And I am sure you meant also to tell us that  
4 private enterprise had attempted this and had not been  
5 successful, and if it had not been for government assis-  
6 tance the C.P.R. would not have been successful?

7 A. Well, I would prefer to put it on a  
8 slightly different basis -- in order to attract a syndi-  
9 cate or group who would undertake to build a trans-  
10 continental railway, some inducement had to be offered,  
11 and whether you call it an inducement or government  
12 assistance, it amounts to the same thing. It was a  
13 quid pro quo. It was part of the contract, and in  
14 the end resulted in the Transcontinental being built.

15 Q. But in addition to the fact that the  
16 government gave the C.P.R. \$25 million in cash, 25  
17 million acres of land, and a constructed rail line,  
18 subsequently valued in the neighbourhood of \$37 million,  
19 and these were the inducements for the C.P.R. to enter  
20 into the contract, when the construction began the  
21 financial situation of the C.P.R. became so drastic that  
22 they came to the government and said, "You have got to  
23 bail us out," and, in order to do this, in 1881 the  
24 Dominion Government lent the C.P.R. \$34,531,000, and  
25 if it had not been for that loan, even after this  
26 private capital came in, and even after these inducements,  
27 the C.P.R. was threatened with bankruptcy?

28 A. That is a matter of history, and I agree  
29 entirely.

30 Q. I am just quoting, as a matter of fact,  
your Canadian Pacific Railway submission to the Turgeon







1  
2 Commission, and I might quote it as it appears at  
3 page 18 of Appendix to Part I:

4 "Construction began on May 2, 1881. In  
5 addition to the engineering difficulties involved  
6 in the location and construction of the line, par-  
7 ticularly through the rough country north of Lake  
8 Superior and the unexplored route through the  
9 Canadian Rockies via the Kicking Horse Pass, the  
10 young company was faced with financial problems.  
11 Attacks were made on its credit, and its  
12 treasury sank so low that the promoters were  
13 threatened with personal ruin. The Government,  
14 committed to the completion of the project, aided  
15 the company with loans totalling \$34,531,612,  
16 all of which were repaid with interest by July 1,  
17 1886."

18 So that the record be clear, Mr. Crump, you  
19 agree that, far from being a simple matter of private  
20 enterprise doing a job the government could not build,  
21 it was an excellent illustration of government and  
22 private enterprise joining hands for the realization  
23 of national policy?

24 A. Certainly I agree that the project could  
25 not have been carried out by private enterprise alone  
26 at that time, and I do not think I know of any better  
27 description of the situation than existed at that time  
28 in Canada than the article from, I believe it was the  
29 financial organ in London, England, entitled "Truth"  
30 of 1881, where an analysis was made of this "mad project,"  
and that the Canadian Pacific would run, if it ever





1  
2 ran, through a country that was frostbound for nine  
3 months of the year, and so forth.

4 Now, I think that adequately describes the  
5 conditions that existed at that time when, as a matter  
6 of fact, there were not as many people in all of  
7 Western Canada as there is in Winnipeg today.

8 Q. And as I say, both you and I agree that  
9 it was necessary and proper that if in the case of the  
10 federal government they wanted to bind this country  
11 together with a rail line, and if private enterprise  
12 could not accomplish it, that the two should join to-  
13 gether to bring about this object?

14 A. Well, certainly, the government could  
15 not accomplish it alone, and it took the combination  
16 that you speak of to finally weld this country together.

17 Q. Then, on page 2 of your brief, Mr.  
18 Crump, in the last complete paragraph:

19 "Unfortunately the railways did not  
20 participate in this general prosperity and have  
21 not been able to earn a fair return on investment.  
22 In fact, during this period the rate of return  
23 on net investment in rail property on Canadian  
24 Pacific was 3 per cent or less for eight of  
25 these thirteen years and only rose above 4  
26 per cent in one of these years."

27 The C.P.R., Mr. Crump, is more than a simple  
28 investment in rail property, but is a corporate  
29 entity involving other assets in addition to the rail  
30 property; is that correct?

A. That is correct.







1  
2 Q. I wondered whether your other assets  
3 shared or participated in the general prosperity?

4 A. At times, they did; and at other times,  
5 they certainly did not. But, fortunately, it was  
6 very fortunate for the railway that we had those other  
7 assets. But the position of the Canadian Pacific,  
8 of course, is that the railway enterprise should  
9 stand on its own feet and it was in that context that  
10 I wrote this.

11 Q. Should the rail enterprise stand on its  
12 own feet, Mr. Crump, on everything that the rail enter-  
13 prise ever received?

14 A. I do not understand your question.

15 Q. I am sorry. I wondered in this  
16 connection if the C.P.R. feels that, for example, the  
17 25 million acres and the \$25 million and any subsequent  
18 receipts by the C.P.R., received because of its rail  
19 enterprise, should be grouped together?  
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(Page 3870 follows)





1  
2 A. Not necessarily so. What we  
3 received in 1881 was part of the contract price. It  
4 was a contract, as I understand it as a layman, and  
5 both sides of the contract were fulfilled by 1885,  
6 and now I am thoroughly convinced that, as I say, the  
7 rail enterprise must stand on its own feet.

8 Q. Would you, therefore, in view of what  
9 you have just said, base the obligations of the  
10 C.P.R. from 1881 on that contract that was entered  
11 into between the C.P.R. and the Dominion government  
12 in 1881?

13 A. Yes, and, as I understand the contract,  
14 it was fulfilled in 1885 on the completion of the  
15 trans-continental line.

16 Q. But we are going to be referring, as  
17 this Commission progresses, to particular aspects  
18 of that contract: there is one rather interesting  
19 phrase where the Dominion government gives you these  
20 items that I have mentioned -- and there were some  
21 others -- for the perpetual and efficient operation  
22 of the railroad, but this is a legal matter.

23 A. That is right.

24 Q. And Mr. Sinclair and I will be discussing  
25 that.

26 THE CHAIRMAN: I have no doubt that will  
27 be done.

28 MR. SINCLAIR: I don't remember the word "give"  
29 being used. I remember the word "grant".

30 MR. MAURO: But you remember the word  
"perpetual".







1  
2 MR. SINCLAIR: Yes, and I remember the  
3 legal definition of "grant" is a conveyance, and not  
4 in the sense that you indicated.

5 THE CHAIRMAN: I am sure there will be some  
6 argument over that between Mr. Sinclair and Mr. Mauro.

7 MR. MAURO: I will accept "grant" if Mr.  
8 Sinclair will accept "perpetual".

9 MR. SINCLAIR: Well, a perpetual vesting,  
10 if that is what my friend says.

11 MR. MAURO: Invested perpetually - all right.

12 MR. SINCLAIR: I will take it on that basis.

13 MR. MAURO: Q. On page 3 of your precis,  
14 Mr. Crump, my learned friend Mr. Cooper had asked  
15 you about some of the economies that have been brought  
16 about and some that you might anticipate in the future.  
17 I was wondering if it were possible for you to tell  
18 us whether the expenditures to date have, in fact,  
19 resulted in operating economies?

20 A. I am sure they have. Unfortunately,  
21 our position since 1946 has been very largely --  
22 may I say that we have had to run very fast to  
23 stand still -- and had we not made these capital  
24 expenditures we would be in very dire straits now.

25 Q. Even whether or not you can pinpoint  
26 any actual savings to date, if these changes had  
27 not been made they would have been that much more  
28 costly to the shipper?

29 A. Oh, very much. As a matter of fact,  
30 again, if you will forgive me for referring to this  
question of diesel, but because it is such a major





1  
2 factor and required such a major expenditure of  
3 funds, I have for sometime, of course, had an indication  
4 of what that has done for us, and roughly, in  
5 diesel locomotives, rail diesel cars and facilities,  
6 we have spent something in the order of \$204 million  
7 in about the last ten years. That has produced  
8 savings of the magnitude of about \$48 million per  
9 year. Had we not done that then, of course, we  
10 would be in a very serious position.

11 Q. Yes.

12 A. That is merely an example that I happen  
13 to have here.

14 Q. At page 4, at the top of the page, Mr.  
15 Crump; for instance, when the Crow's Nest Agreement  
16 was fully implemented in 1899 the average hourly  
17 labour cost was 18 cents; in 1958 the average  
18 hourly labour cost is \$2.21, more than twelve times  
19 the 1899 labour cost. Have you information as to  
20 what the output per employee on a ton-mile basis  
21 was in the earlier period as opposed to today?

22 A. Not in 1899, statistically; although,  
23 I have some indication on a personal basis because  
24 my father was a railway employee at that time in  
25 this territory. The output certainly has increased  
26 when you consider the railway operating conditions  
27 of that period. I have particular reference  
28 to the Crow's Nest territory. On the prairie  
29 territory that would not be as marked, but, certainly,  
30 in the Crow's Nest territory that was so.

Q. And this increased productive capacity







1  
2 of the employee surely is one of the off-setting  
3 factors in a wage rise?

4 A. If productive capacity increases  
5 sufficiently it is, but, unfortunately, in the  
6 railway business, and for the period that we have got  
7 statistics, that increase in productive capacity is  
8 not very great and you must remember that in order  
9 to accomplish it it requires the expenditure of large  
capital sums.

10 Q. And during that same period at the  
11 time that the Crow's Nest Pass Agreement was entered  
12 into, the price of wheat was .99 cents, and I  
13 understand that today the price is in the neighbourhood  
14 of \$1.55. So that both the C.P.R. and the farmers  
15 have had a situation whereby in the case of the  
16 farmer his product has not increased in value to the  
same extent as his cost of production has increased?

17 A. Naturally, there has been an increase  
18 to the farmer. I don't know on what basis you take  
19 the price you quote on wheat, but the International  
20 Wheat Agreement, I believe, has a floor of \$2.00  
21 a bushel, and I think the initial price to the farmer  
22 is \$1.40, if I recall. Then, of course, there is  
23 the free market price which I understand is somewhat  
24 above the international minimum. So, when you  
25 say the price of \$1.55, I don't quite know on what  
basis that is.

26 -  
27 -  
28 -  
29 -





1  
2 Q. That is No. 3 northern, and I have  
3 been advised that No. 3 northern has a very liberal  
4 averaging out of the price that the farmer will  
5 receive for his crop.

6 A. Well, that could well be. Of course,  
7 Canada's reputation, I think, was made on No. 1  
8 northern.

9 Q. I am advised there is less than 2  
10 per cent of No. 1.

11 A. That there is less than 2 per cent  
12 of the wheat crop?

13 Q. Which is graded No. 1 northern.

14 A. I see. Nevertheless, it still has a  
15 terrific impact in international circles.

16 Q. Unfortunately, everybody gets No. 1  
17 northern but the farmer.

18 MR. SINCLAIR: I object to that on behalf  
19 of Mr. MacKimmie and Mr. Dickson.

20 MR. DICKSON: If Mr. Sinclair can do anything  
21 about it, I would be delighted.

22 MR. MAURO: Q. And now, we have been  
23 told, Mr. Crump, that approximately 2 per cent of  
24 the tonnage carried by the Canadian Pacific Railway  
25 moves at class rates, and that the balance - taking  
26 away the grain moving under statutory level - moves  
27 at commodity and competitive rates.

28 Now, you have mentioned under (b) on page  
29 4, the last sentence,

30 "Retroactive wage increases and time







1  
2 lag in having general revenue cases  
3 heard and freight rate increases  
4 authorized made effective has accentuated  
5 this problem."

6 Outside of the 2 per cent that moves at  
7 class rates, you don't need Board authorization to  
8 increase your rates, do you?

9 A. Well, we have maximums under competitive  
10 rates beyond which we cannot go.

11 Q. Who is that set by, Mr. Crump?

12 A. By the Board, as I understand it.  
13 The maximum? Perhaps I am wrong.

14 Q. I am sorry, it is perhaps unfair to  
15 question you about this, Mr. Crump, but I think in  
16 the light of what you said there that the delays  
17 in the Board bringing the decisions and the retroactive  
18 wage increase have created a problem, and I suggest  
19 that the only range in which the Board enters into  
20 this field is over that very minute 2 per cent that  
21 moved under class rates, and that in the broad balance  
22 of the field the Canadian Pacific Railway can at  
23 any time, subject to the rules as to unfair  
24 discrimination, the Canadian Pacific Railway at any  
25 time can raise its commodity rates or its competitive  
26 rates.

27 A. Well, the Canadian Pacific Railway  
28 can raise its competitive rates, I realize that but,  
29 of course, I still believe there is a very narrowing  
30 segment here in not being able to put any portion





1  
2 of these increased costs on such a large segment of  
3 our traffic.

4 Q. But there is even a larger segment,  
5 Mr. Crump, - and this is my point - moving under  
6 competitive and commodity rates, which apparently  
7 the Canadian Pacific Railway can't put any increases  
8 on.

9 A. Oh, but we can do something about  
10 this and we are constantly doing something about  
11 this.

12 Q. Do you do this as the costs increase,  
13 or do you do that after you come to the Board and  
14 get a general rate increase and raise your class  
15 rates and then move your commodity and competitive  
16 rates accordingly?

17 A. I would say the answer to that, Mr.  
18 Mauro, is that we are at all times trying to  
19 maximize our earnings from competitive rates, and  
20 if a horizontal increase is put on, then we see  
21 what happens to the traffic. The object, of  
22 course, is to retain as much of the traffic to the  
23 railway as we can, and I think our traffic officers  
24 are fully ~~sized~~ with the importance of not only  
25 taking the action they do at the time of a general  
26 authorization, but as well between those times in  
27 trying to maximize individual rates where it is  
28 possible to do so and keep traffic on the road.

29 Q. So, in addition to the fixed statutory  
30 rates which you have no control over, there is  
another very definite control on the Canadian Pacific







1  
2 Railway covering an even greater percentage of your  
3 traffic, namely, the control of the market place  
4 and the control that you are not able to put in  
5 these rates due to competitive forces.

6 MR. SINCLAIR: I am sure that my friend  
7 would want to be fair, but this is the second time  
8 that he has referred to this as an even greater  
9 segment, and I wonder if he would say, so that the  
10 witness would understand, whether he is asking him  
11 whether competitive rates and agreed charges are  
12 a segment greater than grain, or that he is  
13 suggesting to the witness that has been the  
evidence.

14 MR. MAURO: Oh well, I will ask the witness.

15 THE CHAIRMAN: Put it that way.

16 MR. MAURO: Q. Mr. Crump, do you think  
17 that commodity rates and competitive rates represent  
18 a larger segment of your total traffic than do  
statutory rates?

19 MR. SINCLAIR: By volume.

20 MR. MAURO: Q. By volume.

21 A. By revenue, but not by volume.

22 Q. By revenue?

23 A. By revenue, but not by volume.

24 Q. Well, in western Canada we have been  
25 told, Mr. Crump, that the grain and grain products  
26 represent 40 per cent of the total transportation  
service performed.

27 A. I understand that is the percentage.

28 Q. I understand the total transportation  
29  
30





1  
2 service is ton miles, is that correct?

3 A. That is correct.

4 Q. So that 60 per cent in western Canada  
5 is not grain in ton miles?

6 A. It is made up of a host of other  
7 commodities.

8 Q. And in the total Canadian Pacific  
9 Railway system, 26 per cent is attributed to grain  
10 and 74 per cent to non-grain; those are the  
11 figures?

12 A. Yes, I agree with that.

13 Q. And this percent represents a greater  
14 volume?

15 A. No, I can't say.

16 MR. SINCLAIR: You said competitive rates  
17 and agreed charges.

18 MR. MAURO: I said commodity rates and  
19 competitive rates.

20 MR. SINCLAIR: And agreed charges.

21 MR. MAURO: And agreed charges. I  
22 thought agreed charges were under competitive rates.

23 THE CHAIRMAN:—You are including it,  
24 anyway.

25 MR. SINCLAIR: You are including it?

26 MR. MAURO: Yes.

27 Q. So that the balance of the traffic  
28 represents 76 per cent?

29 A. Oh yes, I agree with that.

30 Q. At the foot of page 4, Mr. Crump,  
under (c) you say:







1  
2 "Competitions from other media of  
3 transport: Although the railways  
4 provide mass land transportation at  
5 the lowest possible cost, they have  
6 been faced with ever increasing  
7 competition for higher class freight  
8 from highway transport."

9 Now, is it not true that the Canadian Pacific  
10 Railway owns one of the largest single trucking  
11 companies in the highway transportation business.

12 A. That is right.

13 Q. So, you only compete with yourself?

14 A. Well, I would hardly express it that  
15 way; we have acquired and developed these trucking  
16 lines in the interests of bringing about an  
17 integrated transportation company, and that is the  
18 basis of getting into the trucking business.

19 Q. It is rather a unique situation on  
20 the North American continent, isn't it, Mr. Crump,  
21 where a single transportation agency is into the  
22 field carried by land, sea, air, and even another  
23 method of carriage by land, by highway. Do you  
24 know of any other company in North America ---

25 A. No. As a matter of fact, I might  
26 even broaden that, Mr. Mauro, to the world, because  
27 we are unique in that respect.

28 Q. And when the Canadian Pacific Railway  
29 starts talking about competition or the carriage  
30 of commodities it becomes rather more academic





1  
2 than when an American railroad starts talking about  
3 losing a high rate of traffic to the trucks, because  
4 you people yourselves are sharing in this truck  
5 transportation.

6 A. I must say I don't agree with that  
7 statement, because competition is so pervasive  
8 today and our share is so insignificant that I still  
9 regard this competition from the rail point of view  
10 as very real. Now, surely we are in the trucking  
11 to a degree, but there can never be any thought of  
12 monopoly in the railway again or in any other form  
13 of transportation. It has now become a highly  
14 competitive industry and by asserting ourselves  
15 into the trucking industry we hope merely to  
16 participate to a degree in that type of service  
17 and to give our customers the type of service that  
18 he demands.

19 Q. Some of this high rated traffic that  
20 was lost to the Canadian Pacific Railway rail  
21 carriers, has it moved to the Canadian Pacific Railway  
22 truck carriers?

23 A. There is no doubt some of it has to  
24 a small degree.

25 Q. And are you in the business of operating  
26 steamships that carry freight also?

27 A. Oh yes.

28 Q. And how about your air transport, do  
29 they carry air cargo?

30 A. A very small amount, only surplus to  
passenger requirements.







1  
2 Q. On page 5, Mr. Crump, regarding the  
3 return of net rail investment of Canadian Pacific  
4 Railway, this net rail investment would have improved  
5 if your passenger revenues could have been increased?

6 A. I don't think there is any connection.

7 MR. SINCLAIR: You mean return?

8 MR. MAURO: Q. Return of net rail  
9 investment.

10 A. Yes, that is right.

11 Q. Similarly, if your losses on branch  
12 line operations had been lessened or eliminated,  
13 it would have resulted in a better return of net  
14 rail investment.

15 A. Well, I think that is somewhat in a  
16 different category, the loss on branch line operations.  
17 You appear to be taking an overall view of the branch  
18 lines of the Canadian Pacific, but to the degree that  
19 there are losses, yes.

20 Q. And similarly, such items as commuters  
21 service, insofar as the passengers for that return  
22 a fair and reasonable return, it too would have  
23 resulted in a better return on your net rail  
24 investment?

25 A. As I understand your question, yes.

26 Q. So that in short, Mr. Crump, there is  
27 not only the grain rates, but there are other avenues  
28 that if they, too, could be improved, would result  
29 in this improvement in your net rail revenue.

30 A. There are other avenues, as you express  
it, that could stand improvement and we are constantly





1  
2 striving to improve them and we have generally the  
3 power to do it, but the great difference is that in  
4 these avenues we have power to pursue these  
5 improvements and I fully anticipate that we will see  
6 an improvement but, of course, in the statutory  
7 rates we have no power whatever to alter them.

8 Q. Well, let us then deal with that matter.  
9 If you will turn to page 10, Mr. Crump, you say there,

10 "Since 1947 railway labour expenses have  
11 increased over 100 per cent, an increase  
12 which cannot be equitably met in the light  
13 of fixed rates for the movement of grain  
14 and grain products to export positions in  
15 western Canada. "

16 I wonder if you can tell the Commission if  
17 those figures in railway labour expenses have been  
18 equitably met in the light of present passenger  
19 rates?

20 A. Certainly; where a passenger train is  
21 profitable, it has.

22 Q. Let us explore that. How is your  
23 passenger service? Is your passenger service  
24 profitable?

25 A. The passenger service as a whole on  
26 the system is not profitable.

27 Q. And I understand we will be hearing  
28 something on that. Have the increased labour expenses  
29 been equitably met in the light of competitive rates?  
30 Are competitive rates meeting their proper share of







1  
2 the costs, Mr. Crump?

3 A. I should think so.

4 Q. Are these the fully distributed costs  
5 which we have heard so much about?

6 A. I would think so. There may be  
7 cases where it hasn't and others where they meet more  
8 than their fully distributed share.

9 Q. But as a group they would meet their  
10 fully distributed costs?

11 A. Yes, I would think so.

12 Q. What about agreed charges? Would you,  
13 as President of the company, feel that agreed charges  
14 as a group meet their fully distributed costs?

15 A. I would think so.

16 Q. And the branch lines operation of  
17 the Canadian Pacific Railway as a whole, would they  
18 have met - equitably met this increase in labour  
19 costs and other costs since 1947?

20 A. Perhaps not to the same degree. Our  
21 study indicates that within the branch line system  
22 of the Canadian Pacific there is a fairly large  
23 mileage which is wholly attributable to grain, and  
24 I would say that these have not. Many others  
25 certainly have.

26 Q. In the second paragraph you mention  
27 that since 1947 railway material prices have  
28 increased 52 per cent. We took a look at the Dominion  
29 Bureau of Statistics statement 1923 to 1958 on the  
30 Canadian Pacific Railway Company, and it was  
interesting to note that while your material prices





1  
2 have increased 52 per cent, according to this  
3 document at page 17 your revenue per ton-mile has  
4 increased from .963 to 1.465 or, co-incidentally,  
5 52 per cent?

6 A. Well, I haven't that statement before  
7 me, Mr. Mauro, but the one that I have indicates  
8 that starting in 1947 that material, with an index  
9 of 100, in 1958 it has risen to 151.9, whereas the  
10 revenue per ton-mile taking the index in the same  
11 year at 100, has risen to 154.7, so that is taken  
12 from the same source, I would think.

13 Q. So that your revenue, vis-a-vis,  
14 material price increase, is ---

15 A. Roughly the same.

16 Q. And now, in the third paragraph, Mr.  
17 Crump, on page 10,

18 "The fixed level of statutory grain rates  
19 has had the effect of narrowing the traffic  
20 volume to which post-war general revenue  
21 increases could be applied."

22 I wonder if you could tell us what has the effect  
23 of competition been - I will correct that question,  
24 Mr. Crump; I understand that it now reads,

25 "That the fixed level of statutory  
26 grain rates has had the effect of  
27 narrowing the traffic to which post-  
28 war general revenue increases could  
29 be applied."  
30







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A. That is right.

(Page 3890 follows)





1  
2 Q. Could you tell the Commission what  
3 the effect of competition has been in regard to the  
4 narrowing of the traffic to which, increases should be  
5 applied?

6 A. I prefer to state the problem somewhat  
7 differently, Mr. Mauro, in answer to your question,  
8 that because we have not been able to raise our statu-  
9 tory rates on grain, in order to provide our income  
10 we have had to raise our rates on other traffic beyond  
11 what we would have done had we had liberty to move the  
12 grain. This has, of course, accentuated competition  
13 and has allowed competitive services to move in on  
14 the high-rated traffic. So actually with that explana-

15 Q. In all fairness, Mr. Crump, it is not  
16 only your necessity to move this grain at fixed rates  
17 to meet competition but, as you have told us before,  
18 there are competitive factors which are in operation  
19 today not only if you move a pound of grain on  
20 statutory rates, and they were there before the Turgeon  
21 Commission?

22 A. Not to the degree that they are present  
23 now.

24 Q. The competition is there and it has  
25 increased and it will continue to increase?

26 A. Yes, I agree with that.

27 Q. And this, too, has the effect of narrow-  
28 ing that area?

29 A. By all means, but, primarily, we as a  
30 company -- our largest single problem is the fact that







1  
2 we can do nothing with the statutory rates.

3 Q. And you can't do anything about competi-  
4 tion, can you, except meet it, Mr. Crump?

5 A. Speaking of trucking a moment ago, I  
6 might say, to use a modern expression, if you can't meet  
7 them, join them.

8 Q. And you are in the happy position of  
9 being able to join them?

10 A. Quite right.

11 Q. Now, on page 11, Mr. Crump, the second  
12 paragraph, you say:

13 "No segment of traffic receives more atten-  
14 tion from operating officers of the railways  
15 than does the movement of western grain to  
16 export positions. Throughout its history,  
17 operating officers of Canadian Pacific have  
18 had deeply impressed upon them the importance  
19 of the movement of grain. They are aware of  
20 the fact that, historically, Canadian Pacific  
21 was instrumental in opening Western Canada  
22 and the company has always been fully aware  
23 of its responsibility to the people who settled  
24 there."

25 Just so that we have the complete picture  
26 on the opening of the West and the prosperity of Western  
27 Canada and the prosperity of C.P.R., I suggest to you  
28 that Western Canada has made a considerable contri-  
29 bution to the prosperity of the C.P.R.?

30 A. I couldn't agree with you more.

Q. And, in fact, I say that the prosperity





1  
2 of the C.P.R. is very closely interwoven with the  
3 prosperity of Western Canada and the farmers in  
4 Western Canada?

5 A. Again I agree with you.

6 Q. Because not only in moving the grain do  
7 you obtain revenue but this, too, generates a vast  
8 amount of traffic in the C.P.R. in increasing the  
9 purchasing power of the farmer in Western Canada?

10 A. That is correct.

11 Q. And, in fact, the C.P.R. has done fairly  
12 well by Western Canada because they initially received  
13 25 million acres of land out in Western Canada; is that  
14 correct -- the initial grant?

15 A. That is right.

16 Q. And you received very valuable tax con-  
17 cessions in Western Canada that you don't have in  
18 Central Canada, to my knowledge?

19 A. As part of the inducement to build in an  
20 isolated frontierland at that time, we did receive  
21 some, yes.

22 THE CHAIRMAN: And some of them are running  
23 out, aren't they, Mr. Mauro?

24 MR. MAURO: There are some, I understand,  
25 present today that some would like to see some run out.

26 Q. These tax concessions are still in  
27 operation, are they not, Mr. Crump?

28 A. That is right.

29 Q. And they are a valuable contribution to  
30 the C.P.R.?

A. They are a contribution.







1  
2 Q. According to the DBS 1923-58, the C.P.R.  
3 had received a total from all governmental sources of  
4 \$106,153,547, plus 43,962,546 acres of land which we  
5 work out to be about 53,000 square miles of land. So  
6 when you speak of the C.P.R. being instrumental in  
7 opening up Western Canada, we also have to speak in  
8 the context of what the opening up of Canada has done  
9 for the C.P.R.?

10 A. I would agree with you there, Mr. Mauro.  
11 In the same way you must consider what the situation  
12 in Western Canada would have been had the C.P.R. not  
13 been built. So there is an interdependence.

14 Q. I sort of prefaced my remarks by saying I knew  
15 you would want to put the whole story in, and I wanted  
16 the record complete.

17 Now, on page 12, the second paragraph, you  
18 say:

19 "If recognition is not accorded to the  
20 railways' necessity to secure adequate revenues  
21 for the movement of export grain from Western  
22 Canada, the intensity of the railway problem  
23 will continue to increase, to the detriment of  
24 all Canadians and the shippers of all com-  
25 modities, grain included."

26 Would it be fair, Mr. Crump, to say that the  
27 same is applicable to the present inadequate revenues  
28 from passenger services?

29 A. No, I don't think it would, because that  
30 is a problem that will be taken care of.

Q. Well, when is this problem of passenger





1  
2 service going to be taken care of?

3 A. It has been for some time, and it will be-  
4 come increasingly so as time goes on and it will to a  
5 large extent disappear.

6 Q. The passenger deficit will disappear?

7 A. I was thinking more in the form of  
8 passenger trains.

9 THE CHAIRMAN: We might have a recess now.

10 ---Short recess.  
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2 THE WITNESS: Mr. Chairman, may I make  
3 a correction to an answer of mine that I gave, I  
4 believe, to Mr. Mauro in regard to the price of wheat.  
5 I find that the memorandum I read dealt with the 1953  
6 International Wheat Agreement and that the current  
7 International Wheat Agreement stipulates a minimum  
8 of \$1.40 a bushel -- that will be Fort William and  
9 U.S. funds -- with a maximum of \$1.90. So my infor-  
10 mation was badly out of date.

11 MR. MAURO: Thank you very much, Mr. Crump.

12 Q. At page 13 of your precis, the second  
13 paragraph, Mr. Crump, the last sentence of that para-  
14 graph reads as follows:

15 "While Canadian Pacific management  
16 strongly disagrees with the position taken  
17 by the Board that the requirements formula  
18 in its present form does not present a problem,  
19 nevertheless, the largest single problem the  
20 railways have arises from the distortion in  
21 the freight rate structure caused by the  
22 statutory grain rates."

23 I was wondering, Mr. Crump, if you could  
24 advise the Commission about any of the larger multiple  
25 problems. You have told us that the largest single  
26 problem is the movement of grain. What are the other  
27 problems facing Canadian Pacific Railway?

28 A. We have a great many other problems facing  
29 the Canadian Pacific. Passenger deficit is one of  
30 them; ever-increasing efficiency is a constant problem,  
and one on which a great deal of work is being done.





1  
2 The securing of additional traffic. I think probably  
3 it will be a long list if we covered all of the  
4 problems facing the Canadian Pacific at the moment.

5 Q. So that there are these other very im-  
6 portant problems that have to be dealt with in trying  
7 to arrive at a solution of the transportation problems  
8 in Canada?

9 A. I would agree with that, Mr. Mauro. Of  
10 course, we have an ability to deal with them, which I  
11 hope we are exercising, which is the reason for the  
12 division here.

13 Q. But in the terms of this Royal Com-  
14 mission, it was asked to investigate railway trans-  
15 portation problems in Canada. I suggest, Mr. Crump,  
16 it is also important for them to have placed before  
17 them these other problems and the solutions recommended  
18 or proposed by the railways and allow this Commission  
19 to investigate the whole field of railroad transporta-  
20 tion?

21 A. It is my understanding that that is what  
22 the Commission will do.

23 Q. And I expect we will be hearing in the  
24 future from the C.P.R. on the other multiple problems  
25 as opposed to the largest single problem?

26 A. I rather suspect you will.

27 Q. Thank you, Mr. Crump.

28 The next paragraph, Mr. Crump, reads:

29 "Canadian Pacific management has for some  
30 years found it extremely difficult to understand  
why the unfairness in the fixed statutory level of







1  
2 the Western grain rates has not been generally  
3 recognized and why appropriate action has not been  
4 taken to meet this problem."

5 I thought we would go over that period of  
6 the statutory rates, Mr. Crump, and see whether or not  
7 this question of unfairness is sort of a two-way  
8 street, both for the shipper and the railway.

9 The price of wheat in 1897-98 f.o.b. Fort  
10 William was 99 cents a bushel, and the cost of movement  
11 of that from Regina was 20 cents a hundred pounds.

12 The price of grain went up to a high of \$2.63  
13 in the 1919-1920 period, Mr. Crump, and as you know  
14 there was an increase in the price at that time up to  
15 32.5 cents per hundred pounds.

16 Then, during the depression period the price  
17 of grain fell to an average price -- and these are  
18 No. 1 Northern, I understand -- of 60 cents a bushel,  
19 Mr. Crump. But the C.P.R. during the thirties did  
20 not lower its charge for the movement of that grain. It  
21 stayed at 20 cents a hundred pounds?

22 A. Yes, I am aware of that, Mr. Mauro. I  
23 was in that territory at that time.

24 Q. And being in that territory, you know, Mr.  
25 Crump, that the price on some wheat fell as low as 30  
26 cents a bushel?

27 A. Yes. I well recall the expression in  
28 Saskatchewan at that time that if the farmer ever got  
29 dollar-a-bushel grain again he would be in a good position.

30 Q. That was going to be heaven?

And there was no reduction ever by the C.P.R.





1  
2 during that period of the cost of ---

3 A. There was a considerable reduction from  
4 the 1918 to 1922 rate.

5 Q. But they returned to the 1899 figure?

6 A. Yes.

7 Q. But the price of grain in 1897 was 99 cents  
8 a bushel; three times as much?

9 A. Yes.

10 Q. So that it might be reasonable to suspect  
11 that some of the grain growers thought it was a little  
12 unfair that the C.P.R. should maintain its right to the  
13 Crow level of rates when grain fell to 60 cents a bushel  
14 and to 30 cents a bushel?

15 A. I think those are competitive factors,  
16 but there is nothing competitive about statutory grain  
17 rates.

18 Q. What were the competitive factors?

19 A. That it was a worldwide economic depres-  
20 sion.

21 Are you indicating that the price of freight  
22 haul of grain to the lakehead should be tied directly  
23 to the price of wheat?

24 Q. Well, I thought that the value of the  
25 commodity was a rather basic factor in the setting of a  
26 price for the movement of the commodity and that par-  
27 ticularly in the field of export-import traffic, Mr.  
28 Crump, the C.P.R. did in fact give rates that would move  
29 the traffic, would permit a fair return to the shipper  
30 also.

A. In any event, Mr. Mauro, I think our







1  
2 discussion is academic because we do not have the power  
3 to alter them.

4 Q. You mean that the C.P.R. could not have  
5 lowered the Crow level of rates?

6 A. They were statutory rates at that time.

7 Q. In 1930, if the C.P.R. wanted to lower  
8 those rates you could not have lowered them?

9 A. I do not know.

10 Q. I notice that during that period -- I  
11 am again quoting from the submission of the Canadian  
12 Pacific to the Royal Commission on Transportation,  
13 October, 1949. I am referring now to page 11. It is  
14 a table entitled "Gross Earnings, Working Expenses,  
15 Net Earnings and Ratio of Net Earnings to Gross Earnings,  
16 Years 1885 to 1948."

17 Commencing in the year 1930, Mr. Crump, the  
18 ratio of net to gross earnings of the C.P.R. was 21 per  
19 cent. In 1931, 18 per cent; in 1932, 16.2 per cent;  
20 in 1933, 18.3 per cent; in 1934, 19.4 per cent; in  
21 1935, 17.3 per cent; in 1937, 16.8 per cent; and in  
22 1938, 16.4 per cent.

23 So that during the depression period, the  
24 ratio of net to gross earnings of the C.P.R. remained  
25 fairly constant. In 1928 they were 22 per cent; in  
26 1929, 20 per cent; and they range down to 16. Now,  
27 then, we will give the worst one there is -- 1938 was  
28 14.6 per cent. And then they started up.

29 So that during that period the C.P.R.'s  
30 position of net to gross earnings was probably much  
better than the position of the Western grain grower?





1  
2 A. Well, I do not know about that.

3 Q. Well, do you think the western grain  
4 grower was earning anything close to 18 per cent on his  
5 gross?

6 A. Possibly not the western grain grower,  
7 but it was typical of that period in this country.

8 Q. There might be some basis for it, Mr.  
9 Crump in saying that the western grain grower felt that  
10 the prices charged to move his commodity to market in  
11 those years was unfair, having in mind the value of the  
12 commodity and the cost of production of the commodity?

13 A. Well, having only in mind the value of  
14 the commodity, rather than the cost of moving it, it  
15 could well be.

16 Q. And then, just in this range of economic  
17 depression, and the position of the C.P.R., I am  
18 referring to page 9 of the same submission. It is  
19 a table entitled, "Ratio of Railway Operating Revenues  
20 to National Income in Canada, Years 1919 to 1948."

21 In 1919, the Canadian Pacific Railway  
22 represented 4.9 per cent of the national income; in  
23 1930, this was 4.5 per cent; in 1931, 4.5 per cent;  
24 in 1932, 4.8 per cent; in 1933, 4.8 per cent of the  
25 national income; in 1934, 4.5 per cent; 1935, 4.1 per  
26 cent; and in 1936, 4 per cent of the national income?

27 A. It ranged from a high of 6.5 per cent  
28 in 1920 to a low of 2.8 per cent in 1948, in this table.

29 Q. But in that range of the depression  
30 period, the per cent of the national income represented  
by the Canadian Pacific Railway was almost identical in







1  
2 the range from 1930 to 1938 as that in 1919?

3 A. That was only possible, of course,  
4 through very rigid control.

5 Q. And, as a matter of fact, it was some  
6 considerable time after the depression, was it not,  
7 Mr. Crump -- not after the depression, but it was  
8 some considerable time before the price of grain got  
back to the 1899 level of 99 cents?

9 A. Yes, from your viewpoint I think that  
10 is correct, and from my viewpoint it was some considerable  
11 time after that before the shareholders of the Canadian  
12 Pacific got any return, too.

13 Q. How about the capital assets of the  
14 Canadian Pacific, Mr. Crump, during that period? How  
15 was the position of the Canadian Pacific from 1897  
16 to 1939 in capital assets and total value?

17 A. Well, I would say it would be considerable  
18 growth in that period.

19 Q. Now, on page 14, Mr. Crump, the last  
20 complete paragraph:

21 "The total value of cash and lands received  
22 by Canadian Pacific under the Crow's Nest  
23 Agreement amounted to some \$5 million. This  
24 sum has been repaid many times over in rate  
25 reductions between 1897 and 1925 . . ."  
26  
27  
28  
29  
30





1  
2 MR. SINCLAIR: There is a little more.

3 MR. MAURO: Q. "When the government fixed by  
4 statute the level of grain rates." How many years  
5 from 1897 to 1925 did the Crow rate represent the  
6 effective rate for the movement of grain?

7 A. With the exception of the period, as I  
8 recall, from 1903 to 1914.

9 Q. Well, I suggest to you, Mr. Crump, that  
10 the Crow rate was in effect from 1899 to 1903, that  
11 pursuant to the Manitoba Agreement the C.P.R. volun-  
12 tarily reduced the rate to a lower than Crow level,  
13 and that this rate remained in force until 1918 when the  
14 rate went up, and that the Crow rate did not become  
15 effective until around 1922-23?

16 A. I would think that is correct, yes.

17 Q. So that any compensation between the  
18 period of 1897 and 1925 that the western farmers re-  
19 ceived for the consideration under the Crow Agreement  
20 had to be represented by the years 1899 to 1903 and  
21 1923 to 1925?

22 A. Yes.

23 Q. So those are the approximate five years  
24 that you are referring to in the paragraph that repaid  
25 many times over, in rate reductions, what the C.P.R.  
26 received?

27 A. I should think so.

28 Q. I suggest to you, Mr. Crump, that, as a  
29 matter of fact, during all that period the C.P.R. was  
30 quite satisfied to move the grain at that rate?

31 A. Well, they met a competitive rate at that  
32 time.







1  
2 Q. And they were obtaining revenues; they  
3 were contributing net revenues to the C.P.R.?

4 A. I would think so.

5 Q. Certainly; and this was not any chari-  
6 table donation by the C.P.R. in rate reductions, because  
7 for the greater portion of that period you had to meet  
8 a competitive rate?

9 A. There was no question of charitable do-  
10 nation at any point of this, as I understand the situa-  
11 tion.

12 Q. And far from repaying it, I suggest that  
13 during that period the Manitoba Agreement rate would  
14 have been in there whether the Crow Agreement would have  
15 been signed or not?

16 A. Because we were meeting a competitive  
17 situation.

18 Q. Do you have any idea when the Crow rates  
19 became non-compensatory?

20 A. Not with preciseness, but I would think  
21 it would be about the end of the thirties or the be-  
22 ginning of the forties -- just about the start of the  
23 Second World War.

24 Q. That would have been subsequent to Mr.  
25 Beatty's statement?

26 A. When was Sir Edward Beatty's statement?

27 Q. In 1938, I understand, he was quoted as  
28 making this statement:

29 "Sir William Van Horne made an agreement  
30 with the Government for the Crow's Nest Pass  
rates. A great many people criticized that





1  
2 because they said he only got \$3,000,000-odd  
3 in the way of subsidies for building that line,  
4 and in consideration of that he made this  
5 very drastic reduction on grain rates, and  
6 certain other commodities westbound. I have  
7 always thought Sir William Van Horne was 100  
8 per cent right. He knew the geography of this  
9 country, he knew where our competition would  
10 come from, and he knew our only salvation in  
11 the markets overseas was low freight rates in  
12 Canada in view of our distances. I think he  
13 went into that with his eyes open and undoubted-  
14 ly made a good bargain. I think he made a  
15 good one both for the country and the railways.  
16 And that must have been the influence that  
17 actuated him in that matter."

18 MR. SINCLAIR: Where are you reading from?

19 MR. MAURO: Volume 13, page 1765, a question  
20 by Mr. Dickson to Mr. Edsforth.

21 THE WITNESS: And what is the question?

22 MR. MAURO: Q. What do you think about the  
23 deal that Sir William Van Horne made?

24 A. I think in the light of the conditions  
25 prevailing when Sir William Van Horne made the deal  
26 that probably he was entirely justified in doing so.

27 Q. And the government acted pursuant to  
28 the terms of the agreement and the payment of the sub-  
29 sidies and any other consideration that it had to  
30 give to the C.P.R. under that agreement -- the C.P.R.  
received all it was to receive under the Crow Agreement?







1  
2 A. That is correct.

3 Q. And in 1938 even after this period where  
4 the C.P.R. now alleges it no longer became an agreement  
5 but a statutory rate, Sir Edward Beatty in 1938,  
6 some thirteen years after the Act of Parliament in 1925  
7 still says he thinks that Sir William Van Horne made a  
8 good deal then and it is still a good deal?

9 A. It may well be that in the light of  
10 conditions existing when Sir Edward Beatty made that  
11 statement, as of 1938, and having in mind we had a  
12 period of relative stability from about 1935 to 1939, that  
13 that is so. However, commencing in 1939 -- the base  
14 year which has been changed several times by the DBS,  
15 as you know -- costs began to move upward, and my  
16 opinion now is not that of Sir Edward in 1938 nor  
17 of Sir William Van Horne in 1899; but, in the light of  
18 the conditions at the time they spoke, it could well be  
19 true.  
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(Page 3915 follows)





1  
2 Q. At page 19, the first complete  
3 paragraph reads as follows:

4 "For sometime substantial misunderstanding  
5 seems to have been created by the issue  
6 of the statutory grain rates and the  
7 position of Canadian Pacific in regard  
8 to these rates. Continuing controversy  
9 is not in the best interests of either  
10 the railways or the Western Grain  
11 Growers. The importance of putting an  
12 end to this controversy has been recognized  
13 by the appointment of the Commission  
14 and Canadian Pacific welcomes the interest  
15 of the Commission and its staff in the  
16 solution of the problem of the statutory  
17 rates on grain".

18 I would like to read to you a press report  
19 of November the 26th appearing in Free Press of that  
20 day of the statement by the acting Prime Minister,  
21 and I would then request your comments on certain  
22 parts of that paragraph. ---

23 MR. SINCLAIR: I thought before we get  
24 in any further than this that my friend or some  
25 of his confreres had made reference to this  
26 statement that was in the Winnipeg Free Press of  
27 September 17th and 18th, and the Commission made  
28 abundantly clear at that time through the statement  
29 of its chairman that the Commission were operating  
30 within an order-in-council and that they were not







1  
2 doing other than they were directed to do by the  
3 Queen's representative and as it is stated or  
4 deliniated with great ability or precision in  
5 P.C. 1959 - 577. If my friend wants to argue  
6 the meaning of the Prime Minister's statement in  
7 Hansard in relation to the order-in-council as a  
8 matter of interpretation, then I think I would be  
9 very glad to do so, but I don't think the witness  
10 is the man to interpret the language of the Prime  
11 Minister in regard to the order-in-council, which  
12 is the official document governing the work of  
13 the Commission. But I would be very happy to do it,  
14 and I think that the witness would be quite prepared  
15 to let me handle that part of the matter on behalf  
16 of Canadian Pacific.

17 THE CHAIRMAN: Is that your purpose, Mr.  
18 Mauro?

19 MR. MAURO: To be perfectly clear, Mr.  
20 Chairman, what took place on September 17th was  
21 on the matter of interpretation of the terms of  
22 reference, and the Commission found that extraneous  
23 evidence as to what the terms of reference meant  
24 would not be received. This witness is being  
25 cross-examined. I can refer to everything, including  
26 the Plum Coulee Nugget, and ask him for his comments  
27 on it. He has put the terms of reference as  
28 including this controversy. I am not asking the  
29 witness to interpret any news reports as to what  
30 the governor-in-council meant in the terms of  
reference; I am simply asking him to comment ---





1  
2 THE CHAIRMAN: There is no harm in reading  
3 it.

4 MR. MAURO: The statement reads as follows:

5 "It is, however, recognized by the  
6 government that there are serious  
7 inequities in the present freight rate  
8 structure which have both contributed to,  
9 and been aggravated by, the system of  
10 horizontal rate increases. ---

11 MR. SINCLAIR: Who says this?

12 MR. MAURO: The Acting Prime Minister.

13 MR. SINCLAIR: This is what the Free Press  
14 says he says.

15 MR. MAURO: You can rebut it, Mr. Sinclair.  
16 I haven't the Acting Prime Minister with me, so I  
17 prefaced my remarks by saying that this is a quotation  
18 from the Free Press report.

19 MR. SINCLAIR: Surely Hansard is the place  
20 to go to. I would rather he go to Hansard.

21 THE CHAIRMAN: It is a statement to the  
22 press.

23 MR. MAURO: This was a statement to the  
24 press.

25 MR. SINCLAIR: A signed statement?

26 MR. FRAWLEY: There is a mimeographed  
27 statement, because I have one, several copies, and  
28 if my friend puts it to us we will dig up Mr.  
29 Green's statement.

30 MR. MAURO: "It is, however, recognized







1  
2 by the government that there are serious  
3 inequities in the present freight rate  
4 structure which have both contributed to,  
5 and been aggravated by, the system of  
6 horizontal rate increases. The  
7 government ---"

8 MR. SINCLAIR: Is my friend suggesting  
9 judgment against any positions in view of the order-in-  
10 council? I am objecting to the relevancy of it  
11 in view of what the Commission has been asked to do  
12 in the order-in-council. Is he suggesting that  
13 the Acting Prime Minister is giving judgment?

14 THE CHAIRMAN: We had better hear it. We  
15 have the order-in-council, and that is our bible,  
16 as far as we are concerned.

17 MR. MAURO: I will start again.

18 "It is, however, recognized by the government  
19 that there are serious inequities in the  
20 present freight rate structure which is  
21 both contributed to, and been aggravated  
22 by, the system of horizontal rate increases.  
23 The government has already indicated its  
24 intention to move towards a solution of  
25 these problems.

26 A study is being undertaken at once to  
27 work out measures to relieve against  
28 inequities in the freight rate structure  
29 including any that may be aggravated  
30 by the present increases".





1  
2 He is referring to the 17 per cent case.

3 "Steps are also being taken to set up  
4 a suitable body to review the general  
5 field of railway problems and policy.  
6 This study will include not only a  
7 comprehensive consideration of the railway  
8 freight rate problem - including the  
9 situation of the long haul provinces  
10 in the west and in the Atlantic region -  
11 but also other specific problems which  
12 require solution if Canada's railways  
13 are to serve the national interest without  
14 prejudicing particular industries or  
15 areas."

16 Now, were you familiar with that statement,  
17 Mr. Crump?

18 A. I have no doubt I saw the press  
19 release at the time in the current press.

20 Q. And I assume that the C.P.R. would be  
21 just as anxious in the context as this Commission to  
22 put an end to all controversies, all controversies  
23 that the Commission, by its terms of reference,  
24 feels it should investigate.

25 A. We welcomed the appointment of the  
26 Commission to look at the railway problem in Canada  
27 and the terms of reference.

28 Q. Because, certainly, Mr. Crump, whether  
29 right or wrong, you know that there is some very  
30 serious controversy between the Atlantic provinces







1  
2 and the western provinces in regard to the inequities  
3 that they deem to be in the freight rate structure,  
4 particularly horizontal rate increases.

5 A. Well, I can say in answer to that,  
6 Mr. Mauro, that under the terms of reference, the  
7 order-in-council, the Canadian Pacific welcomed the  
8 opportunity of appearing before this Commission,  
9 and it will assist it in every way possible in  
10 arriving at a fair and equitable solution of this  
11 railway problem in Canada.

12 Q. Well, that is, certainly, sir, the  
13 sort of spirit that I think can lead to a solution  
14 of these problems, and if, as you say, the C.P.R.  
15 will give their whole-hearted assistance in order  
16 that this comprehensive consideration of freight  
17 rate problems be assessed, then I think that the  
18 Commission can perhaps come up with some ---

19 A. We will do anything with it that is  
20 practicable to help the Commission.

21 THE CHAIRMAN: I think, however, that  
22 one is too optimistic that we will end all  
23 controversy.

24 MR. MAURO: Q. Someone stated, Mr. Crump,  
25 that the western Canadian farmer could only last  
26 those cold winters because of his continuing  
27 controversy with the C.P.R., the Winnipeg Grain  
28 Exchange and the Bank of Montreal.

29 I want to thank you, Mr. Crump, for your  
30 assistance.

THE CHAIRMAN: Mr. Dickson?





1  
2 Will you be some time, Mr. Dickson?

3 MR. DICKSON: I would think half an hour,  
4 Mr. Chairman.

5 THE CHAIRMAN: Now, I am very anxious,  
6 before Mr. Dickson goes on, about this motion. We  
7 have had this motion of Mr. Frawley's, supported by  
8 Mr. Mauro, on the record more or less since last  
9 September, and we want before we get away to get  
10 the matter cleaned up once and for all one way or  
11 the other. Now, Mr. Mauro is leaving here at 4:00  
12 this afternoon, and we don't want to interfere with  
13 Mr. Crump's evidence to release judgment, but we  
14 could get it in early this afternoon, I think.

15 MR. SINCLAIR: Possibly we could ask  
16 counsel on behalf of the other side what he has  
17 lined up and advise the Commission and ourselves as  
18 to how long, after talking to them, he thinks they  
19 are going to be.

20 MR. FRAWLEY: All I can say is that I  
21 have no information at all.

22 MR. DOHERTY: I would be about twenty  
23 minutes, half-an-hour.

24 THE CHAIRMAN: Mr. Frawley?

25 MR. FRAWLEY: I would think perhaps half  
26 an hour.

27 MR. SINCLAIR: It will be about two hours,  
28 and then there are some questions from the  
29 Commission. It certainly looks that we would have  
30 to move right along, and this is give or take,  
and generally 'take', in my experience. It means the







1  
2 whole day for Mr. Crump.

3 THE CHAIRMAN: What I am thinking of are  
4 those motions, and we have had discussion on the  
5 record and off the record in connection with them.

6 MR. SINCLAIR: Could I make a suggestion,  
7 sir, that we adjourn at the usual time of 12:00  
8 o'clock, we re-assemble at 1:45 and that we dispose  
9 of the motions in fifteen minutes, and people who  
10 want to speak to the motion -- nobody speaking  
11 longer than three minutes, and I think that would  
12 enable anybody who wants to put points before the  
13 Commission on these motions - if he can't do it  
14 in three minutes, well, I would suggest we put  
15 the red light on them as they do in some places.

16 MR. FRAWLEY: All you are interested in  
17 is scrambling them.

18 MR. SINCLAIR: No, I wouldn't agree  
19 with that.

20 MR. FRAWLEY: I would rather withdraw the  
21 motion than be put under any restrictions such as  
22 that.

23 THE CHAIRMAN: Then let's deal with the  
24 motion at the conclusion of Mr. Crump's evidence.

25 MR. SINCLAIR: I am certainly sorry, sir,  
26 for Mr. Mauro in that situation, and I would  
27 certainly like to accommodate him, but we have  
28 Mr. Crump in the box and I think we should complete  
29 his evidence.

30 THE CHAIRMAN: Mr. Frawley, how long do  
you think it would take to discuss the motion?





1  
2 Mr. Sinclair suggested fifteen minutes. Could it  
3 be done in half an hour?

4 MR. FRAWLEY: It probably could be done  
5 in half an hour.

6 THE CHAIRMAN: Well, let's come in at  
7 1:30 and discuss this, and then Mr. Crump can  
8 come on at 2:00. Would that be all right?

9 MR. SINCLAIR: As far as I am concerned,  
10 yes. My confrere says, on behalf of the railways,  
11 yes.

12 THE CHAIRMAN: Then we will meet at 1:30  
13 for the purpose of hearing the discussion of the  
14 argument on the motion, and then we will resume  
15 Mr. Crump's evidence at 2:00 o'clock. Is that  
16 agreed?

17 Mr. Dickson?

18 CROSS-EXAMINATION BY MR. DICKSON:

19 Q. Mr. Crump, on page 2 of the memorandum  
20 there is a sentence reading:

21 "For a period those railways with a  
22 cohesive route pattern enjoyed relative  
23 prosperity."

24 What railways are you talking about there?

25 A. Such as the Canadian Pacific.

26 Q. Any others?

27 A. At the moment, the Canadian Pacific.

28 Q. You regard the Canadian Pacific  
29 as having a cohesive route pattern?  
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A. At that time it did.

Q. What about the present time?

A. Within limits, yes.

Q. And the Canadian National Railway,  
does it have a cohesive route pattern, too?

A. Well, the Canadian National Railways  
came about through a different process of building  
than the Canadian Pacific; that there was an  
amalgamation of a great many different railroads,  
and I am quite sure they didn't have the cohesive  
route pattern that Canadian Pacific had, which was  
planned from the beginning.

Q. Further down the page you speak of  
handling wartime traffic. There are no figures  
given to indicate that that was profitable or not  
profitable. Could you tell me what the Canadian  
Pacific's average rate of return on net investments  
on railway property was during the war years?

A. I haven't got it in my book. That  
could very readily be taken off, though. The  
return I have is post-war.

Q. Was it profitable or was it a loss  
position?

A. Well, the Canadian Pacific was not  
in a loss position. The volume was very, very high.

Q. And the profits correspondingly high?

A. Not unduly, but they were higher  
than has taken place since.

Q. So that the Commission has the back-  
ground, during that particular period, the experience





1  
2 of Canadian Pacific during that period, could you  
3 develop a figure on the average rate of return  
4 during the war years?

5 MR. SINCLAIR: We have, of course, as you  
6 know, Mr. Chairman, a little difficulty in getting  
7 our base on account of certain judgments and we  
8 have to work back, but if my friend will accept  
9 that we make certain assumptions if we move back, we  
10 will give a figure. For what years?

11 MR. DICKSON: Just the average rate of  
12 return on net investments during the war years.

13 MR. SINCLAIR: 1939 to 1945?

14 MR. DICKSON: Say 1940 to 1945, inclusive.

15 Q. Further down the page you mention  
16 3 per cent or less for eight of these thirteen  
17 years, 4 per cent in one of these years. Are  
18 these before or after tax percentages?

19 A. After tax.

20 Q. The before tax earnings would be  
21 about double that?

22 A. Depending upon the rate.

23 Q. Applying 50 per cent tax rate.

24 When the revenues from non-rail investments are  
25 included, what would be the range of rates of  
26 return for the thirteen-year period?

27 A. We haven't got that as such.

28 Q. Could that be developed?

29 MR. SINCLAIR: Once again, Mr. Chairman,  
30 we are in the problem of developing the base. In  
other words, what the question involves is the







1  
2 rate of return on non-rail in the period under  
3 review.

4 MR. DICKSON: For the thirteen-year  
5 period.

6 MR. SINCLAIR: Would it be satisfactory to  
7 my friend and to the Commission if I took a look  
8 at it and then spoke to him about anything I had  
9 difficulty with?

10 THE CHAIRMAN: I think so.

11 MR. DICKSON: That is quite agreeable to  
12 me, Mr. Chairman.

13 THE CHAIRMAN: What period?

14 MR. SINCLAIR: The thirteen-year period.

15 MR. DICKSON: The thirteen-year period which  
16 is mentioned at the bottom of page 2.

17 MR. SINCLAIR: We would prepare a statement  
18 and I would discuss it with my friend as to the  
19 element in the base before I filed it.

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21 (Page 3930 follows)  
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2 Q. Turning to the top of page 3, you  
3 indicate that the net investment of Canadian Pacific  
4 in its rail transportation system has grown from  
5 \$950 million at the end of 1946 to \$1,440 million  
6 at the end of 1958. That is an increase of  
7 \$498 million. To what extent was this provided  
8 by the introduction of outside capital, and to what  
9 extent was it provided from retained earnings?

10 MR. SINCLAIR: That is source and  
11 application of funds that you are asking?

12 MR. DICKSON: Yes.

13 Q.. Have you a study on the source and  
14 application of funds?

15 A. I have some figures here. In that  
16 period, 1947 to 1958, the borrowings amounted to  
17 \$128 million.

18 Q. And the balance came from retained  
19 earnings?

20 A. Retained earnings within the company.

21 Q. Further in the same paragraph, Mr.  
22 Crump, you quote certain revenue ton-mile figures  
23 indicating 1956, 30.4 billion revenue ton miles;  
24 1958, 26.9 billion ton miles, and you gave also  
25 the 1950 figure.

26 Those figures in fact fluctuate upwards  
27 and downwards broadly within the ten year period  
28 you mentioned, do they not?

29 A. They do, and, of course, with the  
30 general economy of the country.

Q. Yes. But to take, say, the 1956







figure and compare it with the 1958 figure would perhaps not give the full picture unless one had the figures for the ten year period. Would that be correct?

A. That is the range within which they fluctuate.

Q. Could we have the figures for the ten year period, Mr. Crump, for each of the last ten years?

A. I can read them into the record, if you wish.

Q. If you would, sir?

A. This is ton-mile revenue freight:  
1946, 23.4 billion; 1947, 26.2 billion;  
1948, 25.2 billion; 1949, 24.2 billion;  
1950, 22.9 billion; 1951, 26.8 billion;  
1952, 28.9 billion; 1953, 27.4 billion;  
1954, 23.6 billion; 1955, 25.7 billion;  
1956, 30.4 billion; 1957, 27.2 billion; and  
1958, 26 billion, 800 million revenue ton  
miles, 26.8 billion.

Q. At the conclusion of that paragraph you state the financial position of the Canadian Pacific has deteriorated.

Now, I am interested in knowing in what particular terms it has deteriorated. Let us deal, first of all, with the working capital at the end of 1958 compared with the working capital of the company at the end of 1957. Was there a decrease or an increase?





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2 A. I have not got that here, but 1958  
3 had decreased over 1957, I believe.

4 Q. Working capital?

5 A. Yes. Well, here, perhaps I have  
6 that figure.

7 Q. If I might just quote from your  
8 annual report, page 11 ---

9 A. \$82,197,000 ---

10 Q. That is right.

11 A. --- in 1958, as compared to \$63,900,000  
12 in 1957.

13 Q. So your working capital position has  
14 improved during 1958 to the extent of \$13,300,000  
15 odd dollars?

16 A. Yes, that is correct.

17 Q. Now, what about the change in total  
18 assets -- did that increase or decrease?

19 A. Increased.

20 Q. By what extent?

21 A. Increased from 2 billion 552 hundred  
22 million to 2 billion 654 million.

23 Q. An increase of over \$100,000,000?

24 A. That is right.

25 Q. What about the change in the  
26 shareholders' equity -- did that increase or decrease?

27 A. That increased approximately 20  
28 million.

29 Q. And, in fact, the shareholders' equity  
30 during the past ten years has shown a steady  
increase from year to year; is that correct?







1  
2 A. That is right.

3 Q. And in no year was the shareholder's  
4 equity less than ---

5 A. I have not checked it precisely,  
6 but generally the trend has been that.

7 Q. When you say the financial position  
8 of Canadian Pacific has deteriorated, in what respect  
9 has it deteriorated?

10 A. First of all, perhaps, the return  
11 on net investment, which is a criterion very commonly  
12 used, particularly with public utilities.

13 Q. That is applying the public utility  
14 approach to it?

15 A. That return on net investment has  
16 steadily decreased. Then, too, I have in mind  
17 net earnings, which have steadily decreased. And,  
18 of course, that rather elusive factor of our credit  
19 in the market.

20 Q. How do you judge your credit in  
21 the market? Have you tested the market during  
22 the past year?

23 A. Not by an issuance of securities,  
24 but one of the many indications, of course, is  
25 the value of our common shares.

26 Q. The market reaction to the ups and  
27 downs of your common shares --- the quote?

28 A. Yes. Our bonds, our preference stocks,  
29 -- and there has not been any indication there that  
30 I could see that would cause me to change this  
statement.





1  
2 Q. Of course, your bonds and preferred  
3 would fluctuate with changes in the overall interest  
4 rate, would they not? I mean, with a fixed level  
5 of rate of bond, as the overall interest rate  
6 increased?

7 A. It could fluctuate within that level  
8 of overall interest rates, but also reflects the  
9 confidence of the market in the company concerned.

10 MR. DICKSON: Before going on to another  
11 question, you may want to have an adjournment?

12 THE CHAIRMAN: I think we will adjourn  
13 now until 1:30 p.m.

14 ---Luncheon adjournment.  
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2 ---On resume at 1.30 p.m.

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4 THE CHAIRMAN: Now, Mr. Frawley, I think  
5 you are first.

6 MR. FRAWLEY: Thank you, Mr. Chairman. I  
7 seem to have given all my copies of the motion itself  
8 away, Mr. Chairman. Thank you, Mr. Sinclair.

9 Now, may I begin, sir, by pointing out that  
10 in the past we had made several submissions, both to  
11 Royal Commissions and to the Board of Transport Com-  
12 missioners with regard to what we thought were the  
13 inequities and the injustices and the discriminations  
14 in the Canadian freight rate structure. About that  
15 we had made submissions with respect to horizontal  
16 percentage increases, and we had succeeded very  
17 poorly. That is obvious, because notwithstanding  
18 everything that has been said about horizontal per-  
19 centage increases, that provision is still being  
20 followed by the Board. It was apparent as the years  
21 went by that there was more and more distortion coming  
22 into the freight rate structure, and we emphasized that  
23 strongly in the last case before the Transport Board,  
24 and we didn't succeed, we failed completely. The  
25 Board felt they were under a compulsion to grant an  
26 increase as requested.

27 We went before the Cabinet, and the Cabinet  
28 felt that that freight rate increase had to be approved  
29 again because of the impending strike that was actually  
30 scheduled for the following Monday morning, and we  
sufficiently advised the Cabinet that they did two things





1  
2 -- because we met before the Board and the Cabinet --  
3 namely, that there was serious imbalance and distortion  
4 of the Canadian freight rate structure, and that the  
5 imposition of freight rate increases had to stop. That  
6 was our argument, that it had to stop; that had to be  
7 taken out of the Canadian freight rate structure.

8 Now, then, following that decision of the  
9 Cabinet to approve the increases -- and this leads me  
10 into this motion I am making today -- they said virtually,  
11 and this is certainly paraphrasing what they said, you  
12 have convinced us that there is imbalance in the  
13 Canadian freight rate structure; you have convinced us  
14 that this horizontal increase method is bad, so we will  
15 do two things; we will set aside \$20 million to ameliorate  
16 in part the condition that we see is so apparent in the  
17 structure, and we will limit that, the application of  
18 that, which supports what I am saying, and we will  
19 limit the application of the \$20 million to two kinds  
20 of freight rates, just two kinds of freight rates  
21 in the whole structure, the class and the non-com-  
22 petitive commodity rates, which, for ease of reference  
23 and not endeavouring to over-emphasize, but for con-  
24 venience, I realize that we can call it captive traffic  
25 to the railways. That is, traffic that would reap  
26 the benefit of the \$20 million, and that is what they  
27 said was all that traffic that took the 17% increase  
28 the last first of December; that traffic and only that  
29 traffic will get the benefit of the \$20 million subsidy,  
30 and the Board's Order set out that that transportation  
is limited and the benefit of that is to the class rates







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2 and non-competitive and commodity rates, and the agreed  
3 charges and competitive rates, the charges on coal  
4 and related rates, none of them getting one cent of  
5 benefit from the money.

6 I am only emphasizing that because of the  
7 fact that I say -- at least it indicates that the  
8 Cabinet was convinced of the distortion in the Canadian  
9 freight rate structure.

10 They said something else, that we also in  
11 addition to that short-run relief, we will set up a  
12 Commission which will have the broadest possible  
13 powers. Now, what the Cabinet was saying to my  
14 Province and to the other provinces of Canada is now  
15 you have a Commission with power to investigate all  
16 of these injustices that you complain of. We have  
17 also got a Commission with power to order the railways  
18 to furnish the tools with which you -- I emphasize that  
19 -- with which you, the province, will be permitted to  
20 continue carrying on this struggle of yours to free  
21 yourself from the injustices in the Canadian freight  
22 rate structure. It is obvious that the Commission  
23 has power to do it. I am putting it to you gentlemen  
24 a little stronger; they said that you shall have the  
25 right to go to the Board. You must, of course, do  
26 it through the Board, but they said to us that you can  
27 go to the Board and ask the Board to use its powers  
28 to require the railways to furnish you and the Com-  
29 mission, of course, with the information that you need  
30 to make out this case that you have been asserting for  
so long and with no success, with no success, because





1  
2 whatever success we gained at the time of the first  
3 Turgeon Commission, well, all I need to say is look  
4 at the imbalance of the Canadian freight rate structure  
5 today where 75 per cent of the increase has to be  
6 taken from 32 per cent of the traffic revenue.

7 I do emphasize that because I do want to put  
8 it to this Commission strongly that the Commission was  
9 saying to us, the people of Canada, at least, the shippers  
10 of Canada, that have been complaining about the Canadian  
11 freight rate structure that you will not only have a  
12 Commission with powers to go into every nook and corner,  
13 every nook and corner of the Canadian freight rate  
14 structure, but that you have the powers to order the  
15 railways -- if that is the only place you can get the  
16 information -- to furnish you with the tools with which  
17 to do this work you have to do.

18 Now, sir, I am not a party; if there has  
19 been any delay I am not a party to that delay, nor is  
20 my friend Mr. Mauro, who is a subscriber to this Com-  
21 mission, nor is he a party or the cause of any delay.  
22 It is circumstances, and I am not pointing the finger  
23 at anyone, but as early as the organization meeting I  
24 asked for certain cost data and so did Mr. Mauro, in  
25 a more general way, that is true, and we didn't leave  
26 it there; that was followed up by conversations between  
27 me and my friend Mr. Sinclair and at one session -- as I  
28 have already put on the record -- I expected to bring  
29 my consultants from Washington to confer with Mr.  
30 Sinclair as to the kind of data we needed. There  
was no doubt about our objective; it was a thorough







1  
2 cost study of the whole Canadian grain rate structure  
3 so that we could get at this imbalance in the freight  
4 rate structure and find out where it was, the nature  
5 of it, and then suggest a remedy.

6 Now, that was unfortunate that that meeting  
7 which would have been held as early as November or  
8 December, didn't come to pass. Then, I had to write  
9 that letter which met with very indifferent success.  
10 Then we had the conference at the suggestion of the  
11 Commission, we had the conference with the railways and  
12 we brought our consultants up. We had four consultants  
13 there, and the railways were there and the grain  
14 industries were there, and we discussed what we needed  
15 and there was no question about what we said we needed  
16 and why we needed it, because we wanted to cost the  
17 whole Canadian freight rate structure, not a piece  
18 here and a piece there, so that we would know the  
19 revenue contributions to overhead, because it is my  
20 basic assumption that by and large every freight rate  
21 in Canada is returning fair out-of-pocket costs. There  
22 may be some exceptions, but in any event, by and large,  
23 freight rates are returning fair out-of-pocket costs,  
24 but a great many of them are not returning full costs.

25 Then, along came the Canadian Pacific Railway  
26 with their cost in connection with the Crow's Nest  
27 grain rates and then, gentlemen, the door was open to  
28 us. If it had not opened the door there was an  
29 invitation for us to ask for the cost study, because  
30 look how unbalanced it would be if the only thing  
that would be searchingly scrutinized from the standpoint







1  
2 of cost was the Crow's Nest grain rate, and I say that  
3 the people of Canada would have been completely un-  
4 satisfied from one corner of Canada to another, the  
5 people of Canada would have been unsatisfied if that  
6 was the only piece of traffic, important and all as it  
7 is to the railways, that was going to have a thorough  
8 searching cost study.

9 Now, it is because we felt -- because the  
10 Province of Alberta, in any event, felt that we were  
11 going to have these powers opened to us, that we  
12 embarked upon the cost study; we expected to place  
13 before this Commission -- and I am making that very,  
14 very clear -- rightly or wrong, but confident in what  
15 the Cabinet had done in setting up this Commission and  
16 confident in the Terms of Reference they gave to you  
17 and confident that the Commission would do all that  
18 was right and proper, we embarked upon the course  
19 that we would make a series of specific studies based  
20 upon the cost studies.

21 So, we instructed consultants to do a state-  
22 ment on the imbalance of the Canadian freight rate  
23 structure. That has gone by many names; you can call  
24 it cost of service versus value of service, and how  
25 soon, if at all, we can put the cost of service  
26 into the Canadian freight rate structure in a more  
27 important place than it now occupies, or you could  
28 call it a distortion in the Canadian freight rate  
29 structure, and also the disproportionate contribution  
30 from the various segments of the Canadian freight  
rate structure, the disproportionate contribution to







1  
2 overhead.

3 Call it what you will, that was the kind of  
4 study which the Province of Alberta instructed be done  
5 for it, feeling very confident that the material, the  
6 tools these consultants would need would be available.

7 The same thing applies with horizontal in-  
8 creases; we retained a consultant and he immediately said,  
9 "I have to have more information than is published in  
10 Ottawa either by the Transport Board or by DBS," and  
11 he indicated what he needed, and so that there will be  
12 no misunderstanding about that, Mr. Banks, with a view  
13 to being helpful, made a request to the railways and  
14 used the expression "Rail Form A" and he said, "Raile  
15 Form A will give Mr. Frawley's consultants the horizon-  
16 tal percentage increase on what he needs. "

17 Now, I referred it to the consultants, and the  
18 consultants came right along with what Mr. Banks had  
19 ordered and said they thought that would be all right,  
20 and he put it in this language, and I might as well put  
21 this in the record as it bears out what I have said  
22 when I spoke about that particular part of my motion.  
23 This is my motion, not Mr. Mauro's motion, although he  
24 is supporting the principles of it.

25 MR. SINCLAIR: We are not arguing that point.

26 MR. FRAWLEY: I don't know whether I should  
27 get up twice; I don't mind getting up twice, if my  
28 friend Mr. Sinclair wants to separate it from the other  
29 matter. It is all part and parcel of what I am asking  
30 the Commission to order, and I would ---

31 MR. SINCLAIR: The Commission is separating it,  
32 not me.





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MR. FRAWLEY: I don't intend any separation.

THE CHAIRMAN: Are you on the Rail Form A now?

MR. FRAWLEY: I am not on Rail Form A, I am on the cost data that I need for the consultant that is going to prepare the statement for me on horizontal percentage increases.

MR. SINCLAIR: That is not the written motion, not this motion.

MR. FRAWLEY: No, that is not the written motion. If my friend thinks that I should separate all my remarks I will do it. I just want a direction from the Commission and get on with what I have to say, and I was addressing myself to the whole approach to the whole matter, and it was all one approach to me.

THE CHAIRMAN: Well, I think you have made it fairly clear, Mr. Frawley. I asked on behalf of the Commission that the motion be in writing, because we now have about four or five different motions and there is only one in writing, isn't there?

MR. FRAWLEY: Yes, that is right, and then there is a letter I wrote, and in that letter I said that what we wanted was a Rail Form A for the purpose of enabling our consultants to segregate out the terminal costs and the train in terminal costs from on the road costs.

THE CHAIRMAN: Have you, since you last discussed this, any further information as to how long it will take to make this study or get this Form A?

MR. FRAWLEY: No, sir, but I said the other







1  
2 day, getting back to Rail Form A, when I spoke the  
3 other day in the informal talk we had off the record  
4 that I am not concerned whether that information about  
5 segregating terminal costs from on the road costs be  
6 done in the chapter on Rail Form A or not; I made  
7 that clear and I want to repeat that, and it is because  
8 of that that I propose to read a few words from the  
9 end of the letter from the consultant himself as to  
10 what he wants by way of separating out on the road  
11 costs from the terminal costs.

12 Now, that is not in the motion because that  
13 information is being required by the Province of  
14 Alberta, and for that reason it is not in the motion.

15 THE CHAIRMAN: Well, what is the information  
16 you require?

17 MR. FRAWLEY: I am talking now of the infor-  
18 mation required to enable my consultant to prepare the  
19 statement on horizontal percentage increases, and he  
20 says the following wording would be satisfactory:

21 "We respectfully request that a determination  
22 be made of the increase in total rail costs be-  
23 tween the year 1950 and the latest current  
24 year for which data is available, with these  
25 costs for each year divided into Costs Related  
26 to Length of Haul and Costs Unrelated to  
27 Length of Haul. The actual cost increase  
28 and percentage cost increase should be de-  
29 termined for all rail carriers under the  
30 jurisdiction of the Board of Transport Com-  
missioners, or for a sufficiently representative





1  
2 portion thereof to be representative of all  
3 such carriers. We refer to I.C.C. Statements  
4 2-50 and 5-56 which presented a breakdown of  
5 total railroad costs of Class I United States  
6 Rail Carriers into Costs Related to Length  
7 of Haul and Costs Unrelated to Length of Haul  
8 between the years 1950 and 1956. The objective  
9 of these I.C.C. cost studies to determine the  
10 per cent of increase in terminal and on-the-road  
11 costs between the given years is identical with  
12 the objective of this request."

13 Now, that is all I want to say.

14 THE CHAIRMAN: Have you any idea as to how  
15 long it will take to get the information they require?

16 MR. FRAWLEY: No, I have no idea of the  
17 amount of work involved.

18 THE CHAIRMAN: Is it months or weeks?

19 MR. FRAWLEY: If I could say days or weeks or  
20 months, but I can't say.

21 THE CHAIRMAN: I can see how material it is.

22 (Page 3947 follows)  
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1  
2 MR. FRAWLEY: That is right, sir. But  
3 I certainly want to impress - the Commission may  
4 have a problem, but, speaking for the government  
5 of the Province of Alberta, we have a problem also,  
6 sir, and that is what I am sent here to present  
7 to this Commission. The problem we have is that  
8 we do sincerely wish to attack the horizontal  
9 percentage increase question again. We have been  
10 doing it unsuccessfully for fifteen years, and I  
11 am now instructed to make this final effort. I went  
12 out and sought a consultant; I inquired as to  
13 who had done any work on the subject. I found this  
14 man. I am willing to place the services of this  
15 man before the Commission, but if I do not get the  
16 cost data I can do nothing on the question of  
horizontal percentage increases.

17 THE CHAIRMAN: I don't want to restrict  
18 you in any way, Mr. Frawley, but you have made your  
19 points clear now, and time is running out.

20 MR. FRAWLEY: I regard this question of  
21 cost data so important that my functions before the  
22 Commission from now on are going to be exceedingly  
23 limited. When you go to Alberta the Premier of  
24 Alberta will point out that, depending on the  
25 question of the cost data, the Government of Alberta  
26 will present such and such submissions to the  
27 Commission, and without that cost data they will  
28 not have those submissions to present.

29 Now, if the Commission should be convinced  
30 that it cannot make a proper report to the Governor-in-





1  
2 Council without a cost study, assuming that you do  
3 make such a direction, I desire to respectfully say  
4 to the Commission that unless that cost data is  
5 made available to me and the person to whom I have  
6 spoken, then it will be of no value to anyone  
7 but the Commission, and, with great respect, it is  
8 inconceivable that the Commission would willingly  
9 and deliberately wish to deny to Alberta, which  
10 has the stake in the Canadian freight rate structure  
11 that is has, that information. We are willing  
12 to spend money to bring these submissions before you,  
13 and we cannot do it without a cost study, and I  
14 most respectfully urge upon the Commission that  
15 the cost study should, by whatever mechanics it is  
16 made, be made and the results of the cost study  
17 be made available to my consultants.

18 THE CHAIRMAN: Mr. Mauro?

19 MR. MAURO: Speaking on the motion, I  
20 think that a considerable amount has already been  
21 placed on the record from the organizational meeting  
22 to this date. As this Commission very well knows,  
23 there was the feeling among those provinces who had  
24 taken a very major role in freight rate hearings  
25 since the end of the Second World War that when  
26 this Commission was established and the terms of  
27 reference published the matter of inequities in  
28 the freight rate structure were to be the major  
29 consideration, and so much was this the thinking  
30 of those provinces who had participated in these  
hearings that we came down to Ottawa for the







1  
2 organizational meeting prepared and to argue that  
3 the grain rates were not for the consideration of  
4 this Commission, and the Commission thought  
5 otherwise, and we then prepared ourselves for not  
6 only those inequities but the inequities which the  
7 Canadian National and the Canadian Pacific said were  
8 the great inequities.

9 There has been some talk recently that  
10 the provinces have changed their position, that they  
11 seek one thing at one time and another thing at  
12 another time. I want to make it very clear that  
13 the position of the Province of Manitoba has not  
14 changed from the date of the organizational meeting  
15 to date.

16 On page 41 of the volume of the organizational  
17 meeting I was speaking about Manitoba's approach to  
18 this position and stated:

19 "We will want to investigate various  
20 other rates in the Dominion of Canada.  
21 My learned friend Mr. Sinclair suggested  
22 that a cost study had been made on the  
23 Crow's Nest Pass rates. I now want  
24 to give notice to my learned friend  
25 that insofar as the Province of Manitoba  
26 is concerned, we are going to strongly  
27 submit to this Commission that the  
28 Commission should not look at the Crow's  
29 Nest rate as an inequitable rate without  
30 looking at any other rates, because if  
we are going to start costing these rates





1  
2 we want to take a look at the general  
3 transportation picture as it affects  
4 the C.P.R. and find out where those  
5 burdens are."

6 At page 116, after that conference that  
7 we had the Chairman the next day asked:

8 "Did you take part in this conference?"

9  
10 I replied:

11 "Yes, I did, Mr. Chairman, and I want  
12 to reiterate my feeling of concern  
13 over a change in the atmosphere that  
14 might enter into this Commission's  
15 hearings from yesterday. I want to  
16 underscore what I said yesterday, Mr.  
17 Chairman and Commissioners, on behalf  
18 of the Province of Manitoba, that we  
19 do approach this Commission's hearings,  
20 to repeat the words of the Chairman,  
21 with a feeling of cooperation, and with  
22 an intent that the results of the  
23 Commission will benefit the whole of  
24 Canada and not one particular section.  
25 We have done some little work in the  
26 Province of Manitoba in the preparation,  
27 but we felt it would be completely  
28 impossible to constructively assist this  
29 Commission without fairly detailed  
30 information as to this question of burden







1  
2 and the national economic policy."

3 And one final quotation from page 118:

4  
5 "Mr. Chairman, I want to make that clear,  
6 that I was under no misapprehension  
7 that this Commission was acceding to  
8 the submission of Mr. Sinclair as to  
9 the limits of its investigative powers.  
10 What I am suggesting, Mr. Chairman -  
11 and perhaps I may be forgiven for this  
12 thought - is that perhaps the Commission  
13 was not aware of what was needed from  
14 a procedural standpoint in order to  
15 facilitate the work of the provinces  
16 in preparing our case. I am only  
17 presenting this evidence for what it  
18 is worth to support our contention that  
19 there are other fields that might  
20 require investigation; that if we are  
21 to determine burdens then we must look  
22 at the whole freight rate structure."

23 That was the position of the Province of  
24 Manitoba on the 17th and 18th of September, and it  
25 continues to be the position of the Province of  
26 Manitoba. Subsequent to those meetings we sought  
27 to do what we thought to be in the best interests  
28 of the Commission; we retained experts in the  
29 United States, and they confirmed our initial  
30 feeling, that without fairly detailed information





1  
2 as to the burdens and contributions to revenues  
3 our position would be greatly handicapped.

4 On February 8th you will be in Winnipeg  
5 and you will hear a general outline of Manitoba's  
6 approach to the terms of reference presently before  
7 this Commission. I can tell you now that while  
8 we can point out certain areas where we feel  
9 investigation will be necessary, we can go no further  
10 without additional information. I think the  
11 questions that have to be answered by this Commission  
12 in regard to this motion are, firstly: can the  
13 railways present the information? And the next  
14 question is: should they be compelled to give this  
15 information?

16 I was very impressed by Mr. Crump's  
17 testimony this morning that there is a matter of  
18 controversy in Canada concerning these freight  
19 rate problems, and you, Mr. Chairman, and Mr.  
20 Commission Mann, have participated too long a time  
21 to need any words of mine to assure you that there  
22 is a very marked controversy concerning this freight  
23 rate structure in Canada. I think there can be  
24 very little doubt that the railways have it within  
25 their means to prepare the information, and the  
26 decision rests with this Commission and this Commission  
27 alone as to whether or not they should be required  
28 to so present this information.

29 I want to underscore again that the  
30 interests of the Province of Manitoba are to assist  
this Commission. If the Commission feels that it







1  
2 is not necessary under the terms of reference, then  
3 the matter is closed. We strongly recommend, sir,  
4 that the motion be granted, that the information be  
5 made available.

6 THE CHAIRMAN: Mr. Doherty?

7 MR. DOHERTY: Mr. Chairman, Commissioners,  
8 I think there is nothing that I can usefully add  
9 to the very able argument put to you by Mr. Frawley  
10 and Mr. Mauro's support of the motion. I would  
11 like to say, however, that we do not regard this  
12 Commission as one to look only into the isolated  
13 situations of the Crow's Nest Pass rates, and we  
14 have been assured that this will not be the case.  
15 I am sure that if the Commission looks into all  
16 the matters, the information required by Mr. Frawley  
17 and Mr. Mauro is required, and I would ask that  
18 these studies be undertaken, that they be undertaken  
19 by the Commission, and that as a result of the  
20 investigation these studies be made available to  
21 us.

22 THE CHAIRMAN: Mr. Dickson?

23 MR. DICKSON: Mr. Chairman, Mr. Wood has  
24 asked me to speak also on his behalf on this motion,  
25 which I think is a most important one, and the  
26 comments which I am going to make are perhaps a  
27 little more general.

28 In general, I would say that we support the  
29 motion which has been made by Mr. Frawley and Mr.  
30 Mauro with one or two reservations, and in speaking  
to this motion I speak, and I think the others who





1  
2 have spoken do so also, in ignorance of any studies  
3 which the Commission may have undertaken on its own  
4 initiative and which you, as a Commission, may  
5 presently have underway.

6 Now, we have heard and welcomed the  
7 assurance given by the Commission on several occasions  
8 during the course of these hearings that the work  
9 of the Commission was not going to be confined to  
10 a study of the grain rates. It does seem to us  
11 that the trend of events which led to the establishment  
12 of the Commission and, indeed, the very language of  
13 the empowering order clearly indicate that it was  
14 not the intention of the Government that your  
15 Commission should devote itself exclusively or even  
16 mainly to Crow's Nest Pass rates. The terms of  
17 reference of your Commission are in the broadest  
18 terms:

19 "To enquire into and report upon the  
20 problems relating to railway transportation  
21 in Canada and the causes thereof and to  
22 recommend solutions thereto."

23 We would submit that the railways, by the  
24 very nature of the case which they have to date  
25 presented to your Commission, and by the nature and  
26 magnitude of the relief they are demanding, have  
27 made it imperative that there be instituted the  
28 broadest study of the position, financial and  
29 otherwise, of both railways.

30 The proposals advanced by the railways







1  
2 envisage an annual charge to the public Treasury of  
3 Canada amounting to some \$63 million per year.  
4 I do not intend to debate at this time whether such  
5 huge annual payments is a subsidy to the farmers or  
6 to the railways or both. Suffice it to say that  
7 if the railways' submission to date prevails, the  
8 public Treasury each year will be some \$63 million  
9 poorer, through actual cash payments to the railways  
10 or through tax relief granted to the railways. And  
11 this at a time when government monetary and fiscal  
12 policy is actively and properly directed towards  
13 containing inflationary trends within this country.

14 Surely the right of the railways to  
15 payments from the Treasury of Canada is not to be  
16 determined, as the railways appear to seek, on  
17 a study in detail of the movement of cost of one  
18 commodity only - in fact, movement of part of  
19 one commodity, as the railways' study relates to  
20 export grain and ignores movement and revenue from  
21 grain moving at domestic rates. The railways have  
22 not yet established that grain movements at statutory  
23 rates are non-compensatory. Even if established,  
24 we respectfully submit that it will be the function  
25 of your Commission before recommending a solution  
26 such as the railways suggest, or any other solution,  
27 to examine carefully all segments of railway traffic,  
28 to determine the contribution of other segments to  
29 variable and constant costs, to look at profitable  
30 movements as well as the unprofitable and to look  
carefully at the overall financial position of both





1  
2 railways, both at present and projected.

3 Before determining whether any subsidy  
4 is needed, and, equally important, the amount thereof,  
5 the Commission should, in our view, examine fully  
6 the losses being sustained on passenger services  
7 and upon any other unprofitable service. If any  
8 subsidies are required by the railways additional  
9 to those which they are presently receiving, they  
10 should, we submit, be related to all unprofitable  
11 movements and unprofitable services. Some of those  
12 services, though unprofitable, may be necessary  
13 in the public interest. It is submitted that  
14 before the Commission and others can assess the  
15 factors I have mentioned or the inequities which  
16 exist, and their extent, there must, it appears to  
17 us, be furnished to the Commission, by some means  
18 or other, detailed information of the nature  
19 outlined in the present application.  
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(Page 3959 follows)







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2 As I have previously advised the Commission,  
3 my clients decided not to engage transportation experts,  
4 for the reason that certain other parties appearing  
5 before the Commission, including the Provinces of  
6 Manitoba and Alberta, had already retained experts of  
7 the highest calibre. It seemed to us that the presence  
8 of further transportation experts engaged by us would  
9 only entail a duplication of effort whilst not being  
10 myself able to comment on the precise form which any  
11 broad study of the nature proposed to take, I am  
12 content to be guided by the views of these skilled and  
13 experienced persons who have been advising Messrs.  
14 Frawley and Mauro and by those advising the Commission.

14 If the Commission, after consideration of  
15 the views of all such experts, feel that a burden  
16 study is the means by which the Commission can best  
17 subject our freight rate structure to an overall,  
18 searching inquiry, that in our view is the study the  
19 Commission should have.

19 And having said that, I must add that my  
20 clients in instructing me to appear before the Commis-  
21 sion did so in no spirit of ill-will towards the rail-  
22 ways. They, through me, are here to try to assist the  
23 Commission in finding answers to the many problems  
24 which confront it. My clients are sensible of the  
25 keen competition which the railways must meet. They  
26 do not want to recommend any action which might  
27 embarrass the railways by forcing them to make a public  
28 disclosure of cost figures or other material which  
29 could be used by competitors to the disadvantage of the  
30





1  
2 railways. For this reason, I would respectfully sug-  
3 gest that the Commission itself in consultation with  
4 its experts should be the arbiter of the extent to  
5 which the material disclosed by the study should be  
6 made public.

7 Concluding, it is appreciated that the cost  
8 of this study will not be inconsiderable and that its  
9 execution may require the employment of a number of  
10 skilled personnel. The railways are asking for a  
11 subsidy of some \$63 million a year. If the subsidy  
12 were to endure for twenty years it would cost the  
13 public treasury over a billion dollars. It is under-  
14 stood that neither the railways nor the provinces  
15 are willing to bear the cost of the study. Even  
16 though this is the case it is felt that in the light  
17 of the magnitude of the railway demands the study is  
18 of such vital importance that considerations of cost  
19 should not be allowed to sway the decision as to  
20 whether or not the study is undertaken.

21 If necessary the Commission should, it is  
22 respectfully suggested, seek to have the government  
23 meet the cost of the study. It is further appreciated  
24 that the completion of the study may absorb a period of  
25 time but possibly not as long as the railways fear.

26 Whilst a speedy determination of the impor-  
27 tant question under review is in the interests of all  
28 parties represented before the Commission and indeed  
29 all the citizens of Canada, it is felt that some delay  
30 in the publication of the Commission's report would  
be more than justified by the value to the Commission







1  
2 and through them to the citizens and taxpayers of Canada  
3 of the material which it is contemplated will be dis-  
4 closed by the study.

5 For these reasons, Mr. Chairman and members  
6 of the Commission, subject to the reservation which I  
7 have mentioned, we support the motion.

8 THE CHAIRMAN: Mr. Blair?

9 MR. BLAIR: Mr. Chairman, speaking on behalf  
10 of the Province of British Columbia, I would like to  
11 make several comments on this motion.

12 The first is that, in general, we support the  
13 motion, subject to some reservations which I shall express.

14 The Province of British Columbia itself is  
15 satisfied that the cost data which the railways have  
16 already agreed to give to it, in so far as the pre-  
17 paration of the province's own brief and own submission  
18 to the Commission is concerned. We believe that if  
19 the Commission comes to the conclusion, as we think it  
20 will, that some cost data is necessary to study the  
21 problem of horizontal increases, then it should direct  
22 that such data be made available to it within reason,  
23 having regard to the time factors involved.

24 We also believe that the Commission will come  
25 inevitably to the conclusion that it will be impossible  
26 to assess the question of undue burden on non-com-  
27 petitive rates unless cost data is made available to  
28 it of the type which was submitted by the railways in  
29 support of their contention regarding the Crow's Nest  
30 rates.

31 But, again, we are prepared to leave it to





1 the good judgment of the Commission aided perhaps to  
2 the extent possible by the cooperation of the parties  
3 to put what limitation may be judged necessary so  
4 that these inquiries can be held within reasonable  
5 bounds.

6 THE CHAIRMAN: Mr. Sinclair?

7 MR SINCLAIR: Well, my confrere Mr.  
8 McDonald will start. I do note my friends have taken  
9 thirty-five minutes, and I must say to the Commission  
10 that that I think that this was rather unfair to the  
11 witness who was in the box, in view of the cooperation  
12 he has extended up to now.

13 MR. McDONALD: Mr. Chairman, I would like  
14 to deal first with Mr. Frawley's letters, one to myself  
15 and one to Mr. Sinclair, dated January 18, 1960, when  
16 he requested the railways to furnish a copy of Rail  
17 Form A for System Freight Operations for the years  
18 1950 and 1958.

19 From his remarks today, I am not sure  
20 whether or not he is still pressing that request,  
21 or has he withdrawn it?

22 MR. FRAWLEY: I am not pressing for  
23 Rail Form A, but I am pressing for the information  
24 which, if my friend will continue reading from my  
25 letter, will indicate why we wanted Rail Form A as a  
26 means to get the information which will separate out  
27 terminal costs and on the road costs. That is the  
28 objective.

29 MR. McDONALD: Well, I will read the rest  
30 of it. To segregate costs which are related to  
length of haul from those unrelated to length of haul.  
Is that it?







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MR. FRAWLEY: Yes, that is what I want.

MR. McDONALD: You do not want the Rail Form A?

MR. FRAWLEY: Not if there is some other way of getting it.

THE CHAIRMAN: You do not want the Rail Form A if you could get the information that it will give you?

MR. FRAWLEY: That is right.

MR. McDONALD: He still wants the information without the Rail Form A, so it is practically the same thing.

I would like to say something about that. This is the years 1950 and 1958. In the first place, he wants to segregate terminal costs from on the road costs. The way our accounts are set up, those are not segregated. We would have to start out to do that way back in the accounts, and we would be a long time doing it.

If you go back to 1950 and 1958 -- we said in the first place it would be impossible to fill out Rail Form A. We have not got the data. You would have to go back there to the time tickets for every man who worked on this and segregate it, because in that day it was not put into the accounts. We do not know whether he was working in the terminal or on the line. You would have to go back to the original sheets -- millions of them -- and figure it out.

If you were starting today and going ahead, you would start a system of segregating these things





1  
2 and keeping separate accounts, which would take a year,  
3 and cost a lot of money, and we do not think it is  
4 necessary.

5 In the American accounts in the United  
6 States for ICC purposes these accounts are segregated  
7 and they have the data. We do not have it. It is  
8 in your original bookkeeping -- your original entries.  
9 We have not got them, and we cannot go back, and I am  
10 advised by our people that it would be impossible to  
11 complete this Rail Form either in the regular way or  
12 in a modified way.

13 I got a copy of it, and it is the greatest  
14 puzzle I have ever seen. I do not know anything  
15 about accounting myself, but there is one here on  
16 the table. I loaned it to Commissioner Mann to see  
17 if he could figure it out, but I do not know how he  
18 got along.

19 We have neither the basic data nor the  
20 original studies available. You have to have studies  
21 available for this thing, too. Furthermore, there  
22 are so many assumptions that have to be made that the  
23 result would be useless. This I am advised by our  
24 officers, and, as I said before the American accounts  
25 classify separately the maintenance expense between  
26 way and terminal expenditures. There is no such  
27 separation under the Canadian accounts. One of the  
28 major changes in the Canadian accounts in 1955 was in  
29 the handling of depreciation which was switched from  
30 a replacement type of depreciation accounting to one  
of straight line depreciation on investment.







1  
2 Rail Form A is designed to handle replacement  
3 type depreciation which was used by the railways in 1950  
4 but was not used in the new system of accounting for  
5 1958, so it would be impossible to take our accounts  
6 and compare 1950 and 1958. They have been changed  
7 in the meantime.

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2 Underlying rail form "A" are special  
3 studies, many of them of an engineering nature.  
4 The results of the studies in American railways have  
5 been incorporated in rail form "A" but cannot without  
6 ~~serious~~ error be used on the Canadian railways  
7 except after a thorough check of the applicability  
8 thereof to Canadian conditions in regard to material  
9 and labour costs. You can't just adopt these  
10 studies of the United States; labour costs and  
11 material costs are different. These would have to  
12 be checked, and the necessary changes made. These  
13 studies will take many months, if not years. When  
14 completed they will be of little use to Canadian  
15 National management. An example of these studies  
16 is the L.C.L. studies carried out over a period of  
17 several years in the United States, and these would  
18 be necessary to complete rail form "A".

19 The railways do not agree with the methods  
20 used in rail form "A" to separate rail and passenger  
21 expenditures. One of the chief reasons for the  
22 use of multiple regression in the grain study has  
23 been to avoid the use of arbitrary separation of  
24 passenger and freight expenses. The committee on  
25 railways does not agree with the conception of  
26 using average cost in estimating the cost of  
27 various movements to the extent they are used in  
28 rail form "A". We do not agree with the concept  
29 of including passenger deficit as part of the cost  
30 of freight operations, as done in rail form "A".  
That was not included in the Crow's Nest study.







1  
2 We feel that the final results of completing  
3 rail form "A" are useless for internal management  
4 purposes and would be extremely misleading, not  
5 only to the Commission, but to shippers and rate  
6 experts who might try to use such results in costing  
7 their own shipments. To have misleading and,  
8 in our opinion, incorrect cost information publicly  
9 available would only compound the situation.

10 We say we haven't got the data; we haven't  
11 got the engineering studies. We figured out they  
12 would be useless when we got it, and it certainly  
13 does not justify the expense and the time.

14 That is all I have to say, that whether it  
15 is rail form "A" or the same information contained  
16 in it, my argument applies.

17 THE CHAIRMAN: I understood from Mr.  
18 Sinclair earlier that there were questions of giving  
19 costs in relation to your competitors?

20 MR. MCDONALD: Yes.

21 THE CHAIRMAN: And you suggest that might  
22 be incorrect costing?

23 MR. MCDONALD: Yes, this would be incorrect  
24 costing.

25 THE CHAIRMAN: Would you object to correct  
26 costing being given?

27 MR. MCDONALD: Oh, yes; that is one of  
28 our trade secrets.

29 THE CHAIRMAN: You mentioned "incorrect".

30 MR. MCDONALD: Well, if you had this rail  
form "A", it would be incorrect.





1  
2 THE CHAIRMAN: You would not want any  
3 costing?

4 MR. MCDONALD: That is right.

5 THE CHAIRMAN: I am sorry that we have  
6 to go beyond 2:00 o'clock, but this has been hanging  
7 fire since September, and I think it should be dealt  
8 with.

9 MR. SINCLAIR: I will be very short. This  
10 motion is an outgrowth of a fishing expedition  
11 first started by a letter that is on record. Mr.  
12 Frawley has made this abundantly clear on a number  
13 of occasions. He says,

14 "We have tried for years to do something.  
15 We now want some information so we can  
16 try to do the same thing in some other  
17 way. We don't know how, but we think  
18 this information will give us some basis."

19 Now, I want to deal specifically with  
20 the written motion, the one that is dated Ottawa,  
21 the 15th day of January, 1960. It asks for two  
22 things: cost data by commodity groups; that is  
23 the first thing. The second thing is "at the  
24 expense of the railways." Why does he want it?  
25 And he speaks on behalf of the provinces, and Mr.  
26 Mauro made it clear.

27 THE CHAIRMAN: "Either by the railways  
28 or by the Commission".

29 MR. SINCLAIR: Very well, Mr. Chairman;  
30 I am sorry, he has got an alternative: "either by







1  
2 the railways or by the Commission", but not by  
3 the people asking for it.

4 He made very clear why he wanted it. He  
5 wanted a cost study of the whole Canadian freight  
6 rate structure to get at the imbalance - and I am  
7 quoting from my note, and my friend will forgive  
8 me if I do not use the right words - why does he  
9 want it? He says, because he agreed traffic  
10 generally - leaving aside this question of statutory  
11 rated traffic - meets its variable cost but not  
12 its full cost. "Much traffic not bearing full cost"  
13 is my note. Then he said that imbalance in the  
14 freight rate structure means cost of service versus  
15 value of service. He then said distortions mean  
16 varying contributions to overhead.

17 This, then, makes things clear: what  
18 my friend is arguing is for a new type of price-  
19 making on the railways. That is clear. That is why  
20 he needs the information, and for no other reason.

21 Mr. Chairman and members of the Commission,  
22 distribution of costs by commodities cannot be the  
23 basis of freight rate levels without ignoring one  
24 of the greatest principles in pricing, namely,  
25 differential, which is fundamental to our pricing  
26 structure under our economy, and is basic to  
27 railway rate making.

28 My friend is saying,

29 "I need this information to have completely  
30 cost oriented pricing in railways."





1  
2 That is not what the railways, or any other part  
3 of the economy, prices on. They price on  
4 differentials. Differential pricing is basic  
5 to our economy. We are not a regimented economy,  
6 and I hope we never will be. This applies to  
7 public utilities, gas, electric, telephone,  
8 railways and all other parts of the economy. That  
9 is the first point.

10 Then, my friend says - and I say in answer  
11 to my friend, misguided though I may be in taking  
12 this position, that I think the economy as applied  
13 to the railways should be the same as applied to  
14 other parts of the economy. I may be misguided  
15 in that. He may be right, but if he is right, he  
16 does not need the data for which he asks to  
17 make his argument. He can argue the concept of cost  
18 of service ~~versus~~ the value of service, and the  
19 abolition of it without needing the data he has  
20 asked for here, which would cost tremendous amounts  
21 of time and money to secure.

22 I now come to my second point. What this  
23 does is develop averages - that is all; a mixture  
24 of high and low density line costs, all through the  
25 way train costs, in different proportions of  
26 commodities within a group of empty return haul,  
27 of differences with regard to different types of  
28 traffic in regard to terminal switching. This  
29 averages them all out and prevents any proper  
30 weighting of the various cost factors referable  
to the type of traffic and the way and direction on







1  
2 the line it is moving. This is not new. In the  
3 class rate investigation in 1939 in the United States,  
4 where all this - pardon me for saying so - nonsense  
5 about burden studies originated, Commissioner Porter  
6 who was dissentient ~~had~~ this to say - and I copied  
7 this from page 285 of the mimeographed report of  
8 the decision because I had nothing else available:  
9 after castigating this concept of average costing,  
10 he said:

11 "I do not mean to say that it is  
12 not the best that can be produced at  
13 this stage of the science of cost  
14 finding, but I do mean to say that  
15 it is so full of estimates and  
16 assumptions that even if it purported  
17 to show the cost of transporting  
18 class rated traffic, which it does not  
19 do, it would be unsafe to base the  
20 prescription of class rates or class  
21 rate relations upon it".

22 Now, Mr. Chairman and members of the  
23 Commission, if you are going to get information by  
24 virtue of the data requested, and you know before  
25 you get it that it is no good for rate making,  
26 that it is no good for dealing with individual  
27 commodities, that it is no good for determining  
28 with any degree of accuracy what the effective  
29 freight rates are, but because somebody got the  
30 idea, based upon bureaucracy, to ask the railways





1  
2 to come forth with a lot of data - which they did  
3 in 1939, and to certain people it served some  
4 purposes - average costing requires the greatest  
5 skill and knowledge to apply. It requires day to  
6 day adjustment and feel. This information is not  
7 information that can be put in the hands of anyone  
8 who has not got a day to day feel of it. It can be used  
9 as a very broad measure and nothing else, and it is  
10 not the best information available. There are  
11 other guides, other bench marks, equally available  
12 today, without all this expenditure, to give the  
13 necessary feel to those experienced people to tell  
14 them when it is necessary to do specific costing.  
15 All it is is a guide or a bench mark, and not a  
16 very good one. What is proposed to be developed by  
17 the motion is average cost for average traffic  
18 under average conditions.

19 Now, Mr. Chairman and members of the  
20 Commission, when we just think of the multitude of  
21 variance in railway traffic and in railway  
22 operations, to say that you are going to go and  
23 expend thousands and thousands of dollars to give  
24 you a figure that is going to give you average costs  
25 for average traffic under average conditions, I think  
26 that disposes of the usefulness of the data requested  
27 in just that way. We are dealing with the whole  
28 range of railway operations.

29 Let me just give you, if I may, a few  
30 notes I put down as to where the averages would knock  
31 this out of kilter. First, fuel and crew wages







1  
2 vary considerably between through and way train  
3 operations, and the average way train on each train  
4 run by direction. Therefore, the average  
5 does not give any weight to that.  
6  
7 -  
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12 -  
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15 -  
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1  
2 Secondly, use of average costing  
3 requires the use of system or regional empty  
4 return ratios, making it impossible to apply the  
5 empty return ratio by direction and by type of  
6 equipment.

7 Thirdly, the use of averaging procedure  
8 makes it impossible to obtain the specific routing  
9 of the traffic.

10 Fourthly, averaging requires use of system  
11 average switching times or regional average switching  
12 times.

13 Fifthly, use of averaging procedure makes  
14 it impossible to assign the costs of facilities which  
15 are solely related to any category of traffic and  
16 results in understatement of the cost of traffic  
17 which possesses solely related facilities and over-  
18 statement of the cost of all other traffic.

19 Now, I put that last for a specific reason  
20 because it has been proved in evidence here that  
21 there are some 3,000 miles in Canadian Pacific  
22 solely related to grain, and in relation to that  
23 and the statement that I have made, I point that up  
24 particularly as to why average costing on Canadian  
25 Pacific is bound to be worse than it could be on  
26 other railroads which do not have a traffic pattern  
27 and a distribution such as Canadian Pacific.

28 Now, I will not say anything more than  
29 that. I do think that it is a needless expense.  
30 Canadian Pacific certainly wishes to assist the  
Commission, and if we thought that these studies







1  
2 would be of benefit to management we would have  
3 undertaken them. The fact that we have not undertaken  
4 them is of some consequence, and I ask the  
5 Commission to do this: the Board of Transport  
6 Commissioners have had discussions with the railways  
7 concerning the supplying of some of this data that  
8 has been running riot down in the United States.

9 In this conference not only was the  
10 railway's voice sought out, but the voice of shippers,  
11 and it was the determination as far as I know that  
12 this data wouldn't be requested of the railways such  
13 as this broad scope data that was used in the United  
14 States, and I will give you one specific example  
15 that the Commission can check. I must speak from  
16 memory on this.

17 In the United States on the basis of these  
18 average costings in official territory, it  
19 appeared that sand and gravel was a deficit traffic,  
20 it wasn't meeting its costs by a substantial sum.

21 Now, the railways seeing this and being  
22 urged on by certain people placed it on the docket  
23 to increase the sand and gravel rate. Interested  
24 parties appeared and said that average costing on  
25 sand and gravel is ridiculous; we are shippers,  
26 we say that that is wrong, if you individually cost  
27 our traffic you will find that it is profitable  
28 to the railways, and there was this costing on sand  
29 and gravel traffic, which was the source of this  
30 complaint. Now, they found that the costing  
31 handled was so far out that what looked like a





1  
2 deficit was in fact a profit, and the idea of  
3 increasing the rates was dropped, and the only  
4 thing that was done was that they increased the  
5 minimum to get a little better utilization of the  
6 equipment.

7 Now, that can be checked by the Commission  
8 because this has only been in fairly recent times.

9 Now, Mr. Chairman, I will give you one  
10 as an example as to the way shippers operate. There  
11 is a situation in the United States in which the  
12 cost commission staff, recognizing the deficiencies  
13 of certain of their procedures, modified them to  
14 costing the movement of one segment of traffic. The  
15 industry involved, recognizing that the modification  
16 will realistically reflect the cost of the traffic  
involved, said,

17 "Oh no, don't do that, use your general  
18 averages because on our general averages  
19 we show that we are meeting the rate  
20 we should have."

21 The Commission then were faced with the shipper saying,

22 "Don't individually cost our traffic,  
23 because I like to use your published data  
24 to indicate to everybody that I am  
25 doing all right."

26 Now, Mr. Chairman, if it is wanted to be  
27 known, generally speaking, what type of traffic  
28 is meeting its variable cost and what is not, then  
29  
30







1  
2 you can do it on the data available on Canadian  
3 Pacific with some considerable work, but within  
4 a reasonable length of time on the five or six data  
5 groups that I have mentioned at other times; namely,  
6 products of mines, products of forrests, products  
7 of agriculture and miscellaneous products and  
8 statutory grain.

9 Now, I say that the basic data is there  
10 for these broad general groups, but the basic data  
11 is not available for any 264 different groups, but  
12 on these broad ones it is available and Canadian  
13 Pacific can do that; it will take some weeks, but  
14 they can do it.

15 It is, however, subject to very great  
16 disabilities, but it does give a broad sweep and  
17 it doesn't produce information that is of any  
18 advantage to our competitors, but individual costing  
19 information does, and 264 different group classifications  
20 also would give information of value to our  
21 competitors.

22 Now, the other point I wish to make again,  
23 and this has to do with Mr. Blair; he says he  
24 wants to know if there is an undue burden on  
25 uncompetitive traffic. Again this goes back to the  
26 same point, undue burden on the most disproportionate  
27 contribution differential, pricing.

28 Of course, the railways are asking for  
29 subsidies, said Mr. Dickson and we, of course, say  
30 we are not asking for a subsidy, and I hope that  
is not going to bother anybody to have us disagree





1  
2 with Mr. Dickson on that because that will be  
3 argued out at another time; he said that his clients  
4 feel that the detailed information of the type  
5 envisaged in the application was necessary for a  
6 full investigation.

7 It is our respectful submission to you,  
8 sir, that it is not; it is not required for the  
9 concept of value of service versus cost of service;  
10 it is not required by the Commission to determine  
11 whether they are going to regiment this section  
12 of the economy, namely, the railways to the type  
13 of pricing it has not been following in other things.

14 My respectful submission is that the  
15 motion, therefore, should be refused and I, of  
16 course, am dealing with what Mr. McDonald had to  
17 say, that is, the 1950-58 comparison of terminal  
18 and line haul costs; we haven't got the 1950 data  
19 and the 1958 data is another matter. Now, how  
20 you make the separation is a very grave and  
21 difficult thing. In the United States they are in  
22 a much different position because of the basic  
23 data that is maintained.

24 I support what Mr. McDonald, therefore,  
25 said in what I call the other question, not the  
26 written motion of Mr. Frawley and those associated  
27 with him.

28 THE CHAIRMAN: Gentlemen, I think I must  
29 first apologize very profoundly to Mr. Crump for  
30 holding him up, but it is most important that we  
get this matter of this motion cleaned up before we







1  
2 leave Ottawa at these sittings, and it so happens  
3 that Mr. Mauro is leaving, too.

4 Now, I don't know of any single subject  
5 that has given this Commission more worry than this  
6 subject that has been discussed here this afternoon.  
7 We have put argument on the record and off the  
8 record; we met counsel on both sides; we discussed  
9 the matter very fully and we have as a Commission,  
10 on this matter of costing, not been idle. We are  
11 doing work ourselves in our own way and of our own  
12 judgment, and at all times our conception of our  
13 duty is that we want to try to avoid controversy  
14 in the country, as Mr. Crump and Mr. Mauro agreed  
15 was so desirable a thing when he discussed the  
16 matter this morning.

16 Now, we will give further consideration  
17 to it, but we are not handing down any rulings now,  
18 of course, but we will give further consideration  
19 to it, but we only ask the parties, both the  
20 railways and the provinces and the grain interests,  
21 to have some regard to what we feel is our  
22 conception of duty and our desire to be trusted  
23 by the various counsel coming before us.

23 We are trying seriously to do our best  
24 in this problem and in the interests of our  
25 country; that is our concern and your concern  
26 as well.

26 This will be reserved now. Will you  
27 call Mr. Crump.  
28  
29  
30





CRUMP, NORRIS ROY, resumed

CROSS-EXAMINATION BY MR. DICKSON:

Q. Mr. Crump, at the bottom of page 3, and on pages 4 and 5 of your submission, your written memo, and again on page 28 of the joint submission, you list the factors which you regard as being the cause of the decline in the railways financial position, and these are, firstly, the old culprit, fixed level of statutory freight rates on western Canadian grain; secondly, the inability to secure from general freight rate increases revenues which would enable the railways to meet increased costs and earn a reasonable return on investments, and some of the reasons are given as the statutory rates and the competition from other media of transport.

Then, in relation to that there is in the joint submission various excerpts from cases, and so on, including one found at the top of page 33 of the joint submission entitled, "General increase in freight rates 1956", which is commonly known as the 15 per cent case.

The Board there, as you will note, states, "These factors indicate that it is the freight rate itself which is largely responsible for the situation in which the railways now find themselves," and it says, "This difficulty is intensified by the fact the grain traffic within western Canada is carried at statutory grain rates" and so on.







1  
2 Now, the quote which is given there doesn't  
3 list the factors to which the Board refers, but  
4 prior to this quote there is an indication of  
5 those factors which the Board appears to regard as  
6 responsible or partly responsible for the position  
7 of the railways.

8 Now, first of all is the decline in  
9 revenue from class rates, and the other factor they  
10 mention is the decline in revenue from non competitive  
11 commodity rates, and then I gather they are in  
12 agreement with you on the effect of competition.

13 Now, can we just compare your list of  
14 factors with what the Board refers to as factors  
15 and, firstly, I suggest that you list as the prime  
16 cause of your troubles the statutory grain rates  
17 which the Board doesn't list as a factor at all,  
18 but simply something which is intensifying other  
19 factors. Would you agree with that?

20 A. In that sense I would.

21 Q. Would you, taking the comparison  
22 which the Board records as factors Nos. 1 and 2,  
23 items which you didn't mention as factors at all;  
24 namely, decline in revenues on class rates and  
25 non competitive commodity rates.

26 A. Well, I think perhaps that is  
27 inherent in my section (b) on page 4; inability  
28 to secure from general freight rate increases.

29 Q. Your item (b), "inability to secure  
30 from general freight rate increases revenues which  
would enable the railway to meet increased costs"?





1  
2 A. That is right.

3 Q. By that you mean that one of the  
4 factors in the declining revenue position of the  
5 railways is agreed charges, is it, or shall we say  
6 the declining non-competitive area of movement?

7 A. Well, all of the factors that enter  
8 into it; I wouldn't say the agreed charges, is  
9 that your question?

10 Q. Well, the decline in revenues from  
11 non-competitive commodity rates.

12 A. Well yes, I would agree to that.

13 Q. You would agree to that. Then,  
14 as far as competition is concerned, do you agree that  
15 this statement which is quoted on page 32 of the  
16 joint submission, and do you adopt this statement  
17 which is found at the beginning of the final  
18 paragraph on page 32, "As a result of these recent  
19 rail traffic trends, we are now more strongly than  
20 ever of the opinion that the long succession of  
21 general freight rate increases, mainly due to added  
22 costs of labour which is the largest single factor  
23 and to increased costs of materials, has brought  
24 about a loss of traffic by the railways to competing  
25 modes of transport" you agree with that?

26 A. I think that is a fair statement.

27 Q. Now, in appraising the factors  
28 which are responsible for the decline in revenues  
29 from the loss of passenger revenues, would that  
30 be a factor which would be taken into account?

A. That is a decreasing factor.







1  
2 Q. And increases in material and labour  
3 costs, would that be regarded as a factor?

4 A. I would say a very important factor,  
5 particularly an increase in labour cost.

6 Q. Why would you not list that as one  
7 of your factors in the decline in revenue to the  
8 railways?

9 A. Well, I don't know. Certainly it was  
10 a factor. We are dealing with the revenues here,  
11 and if you are going to deal with costs, then labour  
12 costs are an important factor.

13 Q. But you are dealing with return of  
14 net rail investment, which I presume is a net return.

15 A. It works out that way.

16 Q. After expenses.

17 A. That is right.

18 Q. Now, you have painted a pretty gloomy  
19 picture, I think, as to the present position of the  
20 prospects of the railroad industry. Could you  
21 indicate whether, on the opposite side of the  
22 picture, there is some satisfaction, perhaps, to be  
23 obtained from the piggy-back service and to what  
24 extent you expect that to act as a counterbalancing  
25 influence.

26 A. Fortunately, the piggy-back service  
27 is a growing service and will help in some measure  
28 the situation that I have painted here. We do hope  
29 that we will be able to divert some of this traffic  
30 from the highways back to the rail by means of  
piggy-back, but if I may just go back to the beginning





1  
2 of your question you say that I have painted a pretty  
3 gloomy picture here. I merely wish to reiterate  
4 that it is gloomy, but no more so that I feel.

5 Q. Quite. Is piggy-back service, though,  
6 a factor which you look to to aid in improving the  
7 prospect.

8 A. Oh, decidedly so.

9 Q. Now, this matter of investment in  
10 trucking service; I suppose that serves two purposes,  
11 first you look on it - would you tell me whether you  
12 do look on it as a source of revenue, perhaps quite  
13 profitable revenue, and secondly, it reduces the  
14 highway transport by truck competition. Does it serve  
15 those purposes?

16 A. It does. As I mentioned this morning,  
17 I think we should be allowed to participate in that,  
18 and it will only be a participation.

19 Q. How much did you invest last year in  
20 the purchase of trucking facilities?

21 A. I haven't that information available  
22 by years.

23 Q. Well, would it be over \$8 million.

24 MR. SINCLAIR: In 1959?

25 MR. DICKSON: Q. In 1958, I am sorry.

26 MR. SINCLAIR: You said "last year".

27 MR. DICKSON: I meant 1958.

28 MR. SINCLAIR: We can look it up and give  
29 it to you.

30 (Page 3986 follows)







1  
2 Q. Perhaps if you could refer, Mr. Crump,  
3 to page 11 of your 1958 annual report, I can read  
4 this to you. Investments made by your company  
5 included purchases of common and preference stocks  
6 of Simpson's Limited of 7.7 million dollars and  
7 \$510,000 respectively, preference stock of Smith  
8 Transport Limited in the amount of \$137,000, capital  
9 stock of Canadian Pacific Transport Company Limited  
10 and Canadian Pacific Steamships Limited in the amounts  
11 of \$1,000,000 and \$385,000 respectively. So that  
12 there would be a total of something in excess of  
13 \$9,000,000, I think.

14 A. Yes.

15 Q. And, approximately, what portion of  
16 the major trucking industry does that represent?  
17 In other words, does that include a very large  
18 interest in the trucking business?

19 A. No, I can't give you the percentage  
20 of the proportion, but I would say it is quite small,  
21 the trucking industry as a whole.

22 Q. That is operated as a separate company?

23 A. That is a separate subsidiary.

24 Q. At page 5, Mr. Crump, you mention that  
25 the requirements formula gives you 5 per cent on  
26 ordinary stock. What has been your dividend rate  
27 on your ordinary stock?

28 A. We have paid a normal dividend on  
29 ordinary stock of \$1.50, or 6 per cent.

30 Q. What effect do you think the dividend  
rate has in the matter of attracting capital?





1  
2 A. That is a very difficult question to  
3 answer. In the investment field today obviously  
4 the yield is not an important factor. The earnings  
5 price ratio, the yield, the payout - all of these  
6 factors are considered, and I think perhaps there  
7 has been evidence here to that effect.

8 Q. Yes, there has.

9 A. But I must admit that in my inquiries  
10 those don't necessarily tell the story. There are  
11 examples of it. Obviously a yield of 6 per cent on  
12 Canadian Pacific common stock is not attractive,  
13 as evidenced by the standing of our stock on the  
14 exchanges in the country. Perhaps the e.p.r. has  
15 something to do with this. Certainly the payout  
16 has, but then there are other factors as well. Now,  
17 I must say that beyond that I haven't been able to  
18 get very much precise information myself.

19 Q. Have you considered the possibility  
20 of increasing your dividend rate with a view to  
21 attracting this capital which you indicate is so  
22 urgently required?

23 COMMISSIONER ANSCOMB: That is a hard  
24 question to ask a president.

25 THE WITNESS: Well, when you go beyond  
26 a payout of 75 per cent I think you are on very  
27 dangerous ground.

28 MR. DICKSON: Q. Assuming that your proposal to this  
29 Commission was accepted, would that have an  
30 influence on your decision?

A. It might very well.







1  
2 Q. And part of that dividend, I suppose,  
3 would come from these monies which you would be  
4 receiving from the government, would it?

5 A. From the earnings of the corporation,  
6 if it were included.

7 Q. Including the subsidy?

8 A. Yes.

9 Q. At the top of page 6, Mr. Crump,  
10 you mention that in no year was there a return  
11 sufficient to enable the company to raise capital  
12 through equity financing. Now, were there no common  
13 or preferred shares of the company issued or sold  
14 during these years you have mentioned, 1946 to  
15 1956?

16 A. None whatever, except the conversion  
17 of some of the bonds to common shares. But there  
18 was no equity issued, and, as a matter of fact, there  
19 has been no equity issued by Canadian Pacific since  
20 1930.

21 Q. Would you care to tell the Commission  
22 what attempts were made to market equity securities  
23 during that period?

24 A. The matter was looked at by our  
25 financial advisers, but it was felt that collateral  
26 trust bonds with a convertible feature to them  
27 could be put out and at a more favourable rate, and,  
28 as you will notice from our debt, that is the  
29 procedure that has been followed for the past few  
30 years.

Turning to page 8, Mr. Crump, you state:





1  
2 "Canadian Pacific has a very large  
3 property investment"

4 And further down:

5 "This large property investment is  
6 subject to use and age. It follows,  
7 therefore, that this property is  
8 inexorably moving towards a date on  
9 which it must be replaced or abandoned."

10 Now, ~~is~~ this not a continuous process of  
11 replacement and abandonment going on in the C.P.R.,  
12 the same as in any other business.

13 A. Oh, yes, that carries on as in any  
14 other business. Of course, our ability to replace  
15 is somewhat circumscribed, as we go on to say,  
16 because of our depreciation and replacement costs  
17 as they are today. But this railway is 70 years old,  
18 and we still feel that it is inexorably moving to  
19 a state of old age, as so many of us are.

20 Q. When you speak of a date, that is  
21 rhetorical?

22 A. That is not any precise date.

23 Q. You have in your balance sheet as at  
24 the end of 1958 an item of \$903,000,000, provision  
25 for depreciation. Is that there to meet this  
26 particular situation you speak of?

27 A. That is the intention of it, but with  
28 replacement costs today far exceeding original or  
29 book costs, very large additional funds must be  
30







1  
2 found just to replace the property in the form that  
3 it is required.

4 Q. Again, isn't that a situation which  
5 is faced by every business, the computation of  
6 depreciation, historic cost rather than replacement  
7 cost.

8 A. Yes, very much so, but it is the  
9 amount of investment we have; it is a very important  
10 factor to us.

11 Q. Then turning to page 9 you list certain  
12 problems which you mention you are facing, stemming  
13 from the growth of Canada: demand for quicker service,  
14 increasing use of specialized equipment, provision  
15 of equipment and improvements in service to attract  
16 and hold customers, expenditures to effect operating  
17 economies, improving working conditions and providing  
18 added safety. Then you go on in the next paragraph:

19 "Another unique feature of the railway  
20 industry ..."

21 Is there anything unique in the features  
22 you have mentioned as problems facing you?

23 A. I think they are unique in the  
24 magnitude of the problem.

25 Q. That is all; it is just a matter of  
26 quantity?

27 A. Very large.

28 Q. You mention at the bottom of the page:

29 "Another unique feature of the railway  
30





1  
2 industry is the extremely high labour  
3 content in railway operating expenses".

4 I suppose that is equally true of pretty  
5 well any service industry.

6 A. Not necessarily true of any service  
7 industry.

8 Q. This is not peculiar to the railways?

9 A. Well, the combination of capital  
10 heavy and labour heavy industry is rather unusual.

11 Q. The one feature which you mention:

12 "Another unique feature of the railway  
13 industry is the extremely high labour  
14 content in railway operating expenses"

15 - you mention that as a separate item, as divorced  
16 from capital expenditure.

17 A. I think I would have to say there  
18 that it is unique in relation to our ability to pay.

19 Q. Over the page, Mr. Crump, you mention  
20 the increase in railway labour expenses having  
21 increased over 100 per cent. Now, could you, for  
22 the record, indicate the amount, the dollars  
23 expended in 1947? The percentage as such doesn't  
24 convey very much without knowing what dollars we  
are talking about.

25 A. For labour only?

26 Q. Yes, railway labour expenses?

27 THE CHAIRMAN: That includes the fringe  
28 benefits.  
29  
30







1  
2 MR. DICKSON: Yes.

3 MR. SINCLAIR: We would be glad to work  
4 it out, calculate it.

5 THE WITNESS: We haven't got it as you have  
6 asked for it, Mr. Dickson, but it could be readily  
7 worked out.

8 MR. DICKSON: Q. I wonder if we could  
9 have the comparable figure for 1959, as well as  
10 a statement of the number of employees in 1947 as  
11 compared with 1959, or 1958, whatever is reasonable.

12 A. That could be made available.

13 THE CHAIRMAN: I think we should take  
14 five minutes.

15 ---Short recess.  
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18

19 (Page 4000 follows)  
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1  
2 THE CHAIRMAN: All right, will you come  
3 to order, please, gentlemen?

4 MR. SINCLAIR: Mr. Chairman, I was talking  
5 with my friends, and the reason I was speaking with  
6 the witness, we were trying to see how we were doing  
7 here.

8 THE CHAIRMAN: You were speaking about  
9 time, were you?

10 MR. SINCLAIR: Yes. And what I understand  
11 is that Mr. Dickson has fifteen or twenty minutes, or  
12 so, and then Mr. Blair will be very short, then Mr.  
13 Doherty, Mr. Frawley and the Commission. My judgment  
14 would be, sir, that it is not going to be possible, even  
15 if we extended an hour beyond the usual closing time,  
16 to finish.

17 THE CHAIRMAN: Will it inconvenience Mr.  
18 Crump to come back tomorrow morning?

19 MR. CRUMP: Rather than not finish tonight,  
20 Mr. Chairman, I think I would rather be here tomorrow  
21 morning.

22 THE CHAIRMAN: We want to complete this and  
23 give consideration to the motion and try to have a  
24 ruling tomorrow. We are trying to keep caught up  
25 with the work of the Commission.

26 MR. SINCLAIR: May we be sure to have Mr.  
27 Crump's evidence finished and Mr. Roberts' deferred  
28 cross-examination finished before we hear anything  
29 about that motion, because I never know what is  
30 going to happen.

MR. FRAWLEY: About waiting over -- as I







1 told my friend, and I even spoke to Mr. Crump in  
2 the corridor, for my part I would be willing to  
3 extend the time this evening, but I just feel that if  
4 we do that and we do not finish even then, it would  
5 be unfortunate.

6 THE CHAIRMAN: I can assure you, Mr. Sinclair,  
7 that any discussion in connection with the motion will  
8 be out of order until a ruling is given. That is the  
9 next thing that will come before the Commission.

10 MR. BLAIR: Mr. Chairman, I have been the  
11 person who has caused the Commission a lot of diffi-  
12 culty, but you have been kind enough to recognize the  
13 peculiar position in which I find myself, having to be  
14 before another Commission every morning. I have a  
15 very few questions. I have two questions to address  
16 to Mr. Crump, and I would think about fifteen minutes  
17 of cross-examination of Mr. Roberts.

18 MR. SINCLAIR: We can do Mr. Roberts to-  
19 morrow afternoon at two o'clock.

20 MR. BLAIR: If that is agreeable to the  
21 Commission.

22 THE CHAIRMAN: That is agreeable.

23 MR. DICKSON: Q. Mr. Crump, while you are  
24 preparing figures on the labour expense, would you  
25 also let us have gross ton mile output per employee for  
26 each of those two years?

27 A. That can readily be done. It is a  
28 matter of straight conversion.

29 MR. SINCLAIR: Yes.

30 MR. DICKSON: Q. At the bottom of page 10,  
you state:





1  
2 "The railways are no longer able to  
3 offset low rates on large segments of traffic  
4 by charging higher rates than would otherwise  
5 be necessary on large segments of other traffic.  
6 The railways with the existing cost of providing  
7 transportation can no longer afford to exempt  
8 the largest single segment of their traffic  
9 from bearing a fair proportion of transportation  
costs."

10 Now, when you talk of segment you are talking  
11 about proportion of the grain and grain products  
12 movement which goes under export rates; is that correct?

13 A. That is right.

14 Q. You are ignoring the domestic grain rate?

15 A. No, I am speaking of the portion under  
16 statutory rates of, roughly, -- was it -- 20 per cent of  
17 volume by gross ton miles. That does not include the  
portion moving under domestic rates.

18 Q. That movement under domestic rates, of  
19 course, has taken 90 per cent increase in rates since  
20 1952?

21 A. I recognize that.

22 Q. And it appears likely that another upward  
23 adjustment is in the offing?

24 A. Could be.

25 Q. The following page, page 11, Mr. Crump,  
about one-quarter of the way down the page:

26 "Throughout its history, operating officers  
27 of Canadian Pacific have had deeply impressed  
28 upon them the importance of the movement of grain."  
29  
30







1  
2 Now, if you would substitute the words "all  
3 commodities" for the word "grain", so that it would  
4 read: "Throughout its history operating officers of  
5 Canadian Pacific have had deeply impressed upon them  
6 the importance of the movement of all commodities",  
7 would the statement not be just as true?

8 A. It would, but for those of us who were  
9 raised in the operating department, and particularly  
10 those of us who came from the West, I think this  
11 statement is also very true.

12 Q. But you impress upon your employees the  
13 importance of any movements?

14 A. By all means.

15 Q. I have asked, Mr. Crump, previously,  
16 the Canadian National and the Canadian Pacific for  
17 figures on the volume of movement at domestic rates.  
18 The Canadian National have indicated that is not withheld,  
19 and the Canadian Pacific indicated that figures will be  
20 forthcoming in due course, and I am quite happy to  
21 receive them when they are available. I am advised  
22 that DBS for 1958 showed 297,000 cars of wheat, 95,385  
23 other grains, 55,638 grain products; for a total of  
24 358,113; and that in your studies, Canadian Pacific  
25 Railway have charged 155,180; C.N.R., 132,246; for  
26 a total of 287,426. So that, to the uninitiated, it  
27 might appear that some 70,000-odd cars moved at  
28 domestic rates. Would that be approximately ---

29 MR. SINCLAIR: In Western Canada.

30 MR. DICKSON: In Western Canada, yes.





1  
2 THE WITNESS: I could not say, without some  
3 study.

4 MR. DICKSON: Q. Would it be approaching  
5 that magnitude?

6 A. Could well be.

7 Q. On page 12, Mr. Crump, you state:

8 "The Board has been seriously hampered in  
9 carrying out this duty by the fact that the  
10 rates on grain moving to export positions in  
11 Western Canada are removed by statute from the  
12 control of the Board."

13 That is your opinion?

14 A. That is my opinion.

15 Q. I see.

16 A. And the opinion of some of the Commis-  
17 sioners, from time to time.

18 Q. You quote in the joint submission -- you  
19 make a statement something to that effect?

20 A. I have in mind particularly the demand  
21 of Mr. Commissioner Chase in that regard.

22 Q. He was not speaking as the Board or  
23 even as a member of the Board when that statement was  
24 made?

25 A. As I understand it -- correct my phrase-  
26 ology -- it was in a dissenting Judgment.

27 MR. SINCLAIR: The addenda.

28 THE WITNESS: An addenda to the Judgment.

29 MR. DICKSON: Q. There is nothing in the  
30 freight quotes you did in the joint submission  
specifically stating, as you state here, that the







1  
2 Board has been seriously hampered in carrying out  
3 this duty by the fact that the rates on grain moving to  
4 export positions in Western Canada are removed by  
5 statute from the control of the Board.

6 A. This is in further observations by  
7 Commissioner Chase in the Judgment and Order of the  
8 Transport Commissioners, November 17th, 1958. But,  
9 in my personal opinion, I am sure the Board must feel  
10 circumscribed that no increase can be put on such a  
11 large segment of the traffic.

12 Q. Surely if the Board takes facts as they  
13 find them -- if it is a fact they must accept that.  
14 However, it is not of any great significance?

15 A. There is -- may I just interject for a  
16 moment? Mr. Sinclair has pointed out that in the  
17 17th Judgment, it is in the Judgment itself on page 18,  
18 dated December 27, 1957, Judgment. The Board noted  
19 that they had no power to increase the statutory rates  
20 on grain and flour. This is certainly so, and it  
21 follows that no part of the rate increase as required by the  
22 railways to meet increased costs of operation, including  
23 such part of that cost as is incurred in the carriage  
24 of that traffic, can be placed by the Board on those  
25 statutory rates.

26 Q. That is accepted?

27 A. Yes.

28 Q. But you go one step further in this  
29 submission and conclude that the Board was seriously  
30 hampered in carrying out its duties?

A. That is my personal opinion.





1  
2 Q. On page 13 you state, at the bottom of  
3 the first paragraph, down about line 12-13, that a  
4 healthy operating condition requires adequate revenues,  
5 which cannot be secured unless the railways' remuneration  
6 from Western grain traffic is just and reasonable.  
7 Do you regard the railways' remuneration from the  
8 movement of grain products which move at domestic  
9 rates to be just and reasonable?

10 A. Well, they are carrying their variable  
11 costs, I would think, and a portion of constant costs.

12 Q. Are they not carrying full constant  
13 costs?

14 A. I could not tell you that without looking  
15 at it.

16 Q. But they are more than twice as much as  
17 your present Crow rates?

18 A. It could well be.

19 Q. In doubling your present Crow rates  
20 you expect to double your full constant costs?

21 A. Full constant costs -- it would depend  
22 upon the movements.

23 Q. At the top of page 15, you say:

24 "It should be remembered that the stake  
25 of Canadian Pacific in Western Canada is pro-  
26 portionately larger than in any other geo-  
27 graphical area -- two-thirds of its trackage  
28 is in Western Canada."

29 Do you maintain figures on earnings in the West as  
30 contrasted with earnings in the East?

A. Yes, there is some distribution of those







1  
2 figures made.

3 Q. Are those available?

4 A. We have not got them -- that is, I do  
5 not think ---

6 MR. SINCLAIR: They are not published.

7 THE WITNESS: Those figures have never been  
8 published, I am informed, and I would like to have a  
9 look at them.

10 MR. DICKSON: Q. I won't ask for them, then.  
11 If the Board wishes them no doubt the Board will ask  
12 for them, but they are available?

13 A. On an arbitrary basis.

14 Q. There is a statement appearing at the  
15 middle of page 15, and I am not going to labour it -- but  
16 it says:

17 "In 1925, when the Agreement was set aside  
18 and grain rates were made purely statutory and  
19 applicable throughout Western Canada . . ."

20 Now, in spite of your two Doctor of Law degrees, I do not  
21 think this is the time for any legal argument, but I  
22 wonder if we could agree on these points: firstly, that  
23 a written agreement has never been entered into between  
24 your company and the government formally terminating the  
25 Crow's Nest Pass Agreement; and secondly, that the  
26 question of whether the 1925 amendments to the Railway  
27 Act put an end to the 1897 Agreement is one of legal  
28 interpretation as to the effect of Section 328(6) of the  
29 Railway Act; thirdly, that there are two schools of  
30 thought on the effect of that subsection, and if the  
legal interpretation you are advancing does not happen





1  
2 to be correct, the 1897 Agreement is still in force and  
3 you would have to ask the Commission to recommend not  
4 only the relief you have requested, but also that  
5 you be relieved of a contract which your company entered  
6 into in 1927, and if the agreement is still in force,  
7 Parliament, of course, could terminate it, but it might  
8 be one thing to say, change the legislation, and it might  
9 be another thing to say, change the legislation, and at  
10 the same time, relieve us of a contractual obligation,  
11 and to the extent of that difference our discussion  
is not academic.

12 A. Well, Mr. Dickson, I have no doubt that this  
13 question will be argued at length -- to my mind, some-  
14 what uselessly, because Parliament is supreme in this  
15 country.

16 Q. Agreed. Now, having in mind the wording  
17 of the Supreme Court Judgment in 1925 on westbound  
18 commodities, that it was within the power of Parliament  
19 representing the people of Canada if they did not agree  
20 that confinement to points in existence in 1899 should be  
21 continued, to change it. And Parliament, in my  
22 estimation, changed it by the legislation introduced  
in 1925, and extended it.

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1  
2 Q. And, at the same time, relieved the  
3 company of other rate movements westerly?

4 A. I certainly am not going to argue on  
5 this legally, but I recognize full well that when  
6 Parliament in Canada acts, that is the last resort.

7 Q. I would agree one hundred per cent with  
8 that conclusion. On the other hand, would you agree  
9 that these concepts that I have put -- that it is a  
10 matter of legal interpretation?

11 A. It could well be; not to my mind.

12 Q. Mr. Crump, at page 17 you indicate that  
13 the method to be adopted should be one which meets  
14 the following principles: and one of those principles  
15 is payment of the assistance should be made in such a  
16 manner as to eliminate continuing controversy. I  
17 am saying this seriously, as your proposal as to the  
18 income tax aspect of it appears to be creating more  
19 than a little controversy in so far as your company and  
20 the C.N.R. are concerned, are you, having regard to  
21 this being one of your basic principles, prepared to  
22 bury or abandon your proposal as presented?

23 A. Not at this time because of controversy  
24 with the Canadian National; that doesn't bother me in  
25 the least.

26 Q. I just take your principle as it is  
27 stated.

28 A. The controversy in Western Canada I  
29 would like to see eliminated if at all possible.

30 Q. So, when you say the method to be  
adopted is the one which meets the following principles,





1  
2 and you say one of those principles is payment of  
3 the assistance should be made in such a manner as to  
4 eliminate continuing controversy, you take your own  
5 railway and the C.N.R. out of that possibility of  
6 continuing controversy?

7 A. I would hope so.

8 Q. In this proposal which you put forward,  
9 this income tax solution, perhaps you would agree -- first  
10 of all, you indicate in your joint submission that the  
11 Income Tax Act at the present time has certain pro-  
12 visions which you suggest are analagous, one relating  
13 to mining companies in their earlier years, and the  
14 other to depletion allowances for mining companies  
15 and oil companies.

16 First of all, dealing with the special  
17 provisions for mining companies in their earlier years,  
18 are those not in there to encourage development of our  
19 natural resources?

20 A. I agree with that.

21 Q. And the depletion allowances, aren't  
22 they there to give recognition to the fact that re-  
23 covery of oil or minerals, part of the recovery, is  
24 for capital account and part for income account?

25 A. I would agree with that, Mr. Dickson.

26 Q. Well, is there anything analagous in  
27 that situation to what you are proposing?

28 A. Not in the true sense of the word  
29 "analagous", but as a means of dealing with a specialized  
30 problem I think there is, and this appears to me to be  
a specialized problem.







1  
2 Q. I would agree with that, but would you  
3 perhaps agree with me that a taxing statute, its primary  
4 purpose is a revenue obtaining enactment?

5 A. Putting it bluntly, to raise money.

6 Q. And isn't it also true that one of the  
7 fundamental principles, perhaps the fundamental prin-  
8 ciple, of any taxing statute is that the taxpayers be  
9 treated uniformly and that none be preferred and none  
10 unjustly discriminated against?

11 A. Theoretically I presume you are right.

12 Q. And isn't it, therefore, true when you  
13 put forward this proposal that you are breaching in a  
14 very major way, I suggest, that basic principle of  
15 good taxing and statutory practice?

16 A. Not in my opinion.

17 Q. It sets your company and the C.N.R.  
18 apart in this respect from all other taxpayers of  
19 Canada?

20 A. Not necessarily. As I say, this is a  
21 specialized problem. The Income Tax Act has been  
22 used for other specialized problems, and as probably  
23 one of the major taxpayers in Canada, if not the major  
24 one, over the past seventy years, I do not see anything  
25 too much out of the way.

26 Q. You don't regard it as a misuse of a  
27 taxing statute?

28 A. No, I don't.  
29  
30





CROSS-EXAMINATION BY MR. BLAIR:

Q. Mr. Crump, as you know, I appear here on behalf of the Province of British Columbia, and as you also remember the Province of British Columbia has for a number of years attacked the statutory grain rates with perhaps as much vigour or even more vigour than the railways have done?

A. I might dispute the latter part of that statement.

Q. But, in any event, we are at one with you in wanting to have something done to correct inequities which these rates have created. Mr. Crump, in Mr. Edsforth's testimony given earlier before the Commission, I believe he stated that had the burden of the postwar increases been borne proportionately by the grain rates that the general level of rates would have risen only 112 per cent instead of 157 per cent?

A. As I understand, that was discussed between Mr. Edsforth and Mr. Brazier, and I don't think it was quite as precise as that, but, certainly in the vicinity of 112 per cent instead of the 157 per cent that has taken place.

Q. But whatever the precise figure is, there is no doubt that other shippers than the grain shippers have had to bear a disproportionate burden resulting from the postwar freight rate increases?

A. I am sure of that.

Q. Your company has made a proposal for the correction of this situation for the future?

A. We have advanced a proposal, yes.







1  
2 Q. Did you ever give any consideration to  
3 the rectification of the injustice which has been done  
4 to other shippers in the postwar years by reason of  
5 them having to accept larger freight rate increases  
6 than they otherwise might have done?

7 A. The way I feel at the moment is that  
8 that is the second half-mile. We are on the first half  
9 now.

10 Q. If you are able to get the relief which  
11 you seek before this Royal Commission, have you any  
12 intention of passing it back to other shippers in the  
13 form of reduced rates?

14 A. That will depend entirely upon the  
15 situation that exists at that time, as to what action  
16 will be taken.

17 Q. But your company recognizes that other  
18 shippers such as the lumber industry, for example, have  
19 borne a disproportionate part of the burden of the  
20 postwar increases?

21 A. I think simple arithmetic indicates that.

22 MR. DICKSON: Mr. Chairman, like Mr. Mauro,  
23 I have to return to Winnipeg this afternoon, and Mr.  
24 McKichan will continue.  
25  
26  
27  
28  
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1  
2 Q. On the first page of your submission  
3 you make this statement:

4 "Railways were such an effective instrument  
5 in populating and developing various parts of  
6 Canada that in certain areas the expansion of  
7 railways was carried beyond the point of economic  
8 justification."

9 Now, would this be another way of saying that the  
10 railways are an instrument of national policy?

11 A. Not necessarily. I think when the  
12 Canadian Pacific was organized in 1881 it was used as  
13 an instrument of national policy at that time because of  
14 the historical difficulties that were being encountered,  
15 but that is not saying the railways are an instrument  
16 of national policy.

17 Q. But you do agree that they are an  
18 instrument of national policy and have been an  
19 instrument of national policy?

20 A. They formed a very important part of  
21 national policy.

22 Q. On page 2, Mr. Crump, there are a few  
23 words in the paragraph at the top of the page; you  
24 say:

25 "For a period those railways with a  
26 cohesive route pattern enjoyed relative pros-  
27 perity."

28 But there was a question this morning on cohesive  
29 route pattern and I was wondering if you could perhaps  
30 indicate what principle you think would go into  
constituting a cohesive route pattern?







1  
2 A. Well, I had in mind there the situation  
3 that existed in Canada immediately prior to the for-  
4 mation of the Canadian National Railways, where three  
5 transcontinental lines had been built, perhaps in a  
6 somewhat disjointed pattern, and ultimately, of course,  
7 resulted, through over-building, resulted in bank-  
8 ruptcy or near bankruptcy of many of these lines and  
9 the formation of the Canadian National Railways.

10 Q. Would it be, I suggest, something  
11 capable of efficient operation; that is the thing you  
12 had in mind with the cohesive route pattern?

13 A. That is primarily what I had in mind;  
14 the cohesive route pattern is one designed for the  
15 efficient handling of goods within the territory.  
16 Now, that doesn't pertain to all railways in Canada.

17 Q. I think this morning you suggested the  
18 Canadian Pacific Railway was, perhaps, the only railway  
19 that lived up to it?

20 A. It approaches more closely to that.

21 Q. Now, in the same sentence, Mr. Crump,  
22 you use the words "relative prosperity," and I was  
23 anxious to know what you had in mind in speaking of  
24 relative prosperity?

25 A. Where is this, Mr. Doherty?

26 Q. It is in the same sentence I read at  
27 the top of page 2 of your brief, "For a period those  
28 railways with a cohesive route pattern enjoyed relative  
29 prosperity"?

30 A. I think that was amply proven, but it  
took some time before some of them closed up.





1  
2 Q. In so far as the Canadian Pacific was  
3 concerned there was, perhaps, a certain period in  
4 which there was greater prosperity than others. It  
5 appeared, I believe, starting around 1910 to 1928, and  
6 I understand that this was a period of prosperity for  
7 the Canadian Pacific Railway, and the dividends, I  
8 believe, were something in the neighbourhood of 10  
9 per cent or better in that entire eighteen-year period?

10 A. From the Canadian Pacific?

11 Q. From the Canadian Pacific.

12 A. Not from rail. Well, compared to the  
13 period that you mentioned and our present period, I  
14 would say that was a period of relative prosperity.

15 Q. Now, proceeding on to the next paragraph  
16 in which you say:

17 "With the arrival of the depression of  
18 the 1930's the railway industry was faced with  
19 a period of very low traffic and very low re-  
20 turns. The earnings position of the railways  
21 during this decade had a definite effect on  
22 railway plants."

23 Were you suggesting there, Mr. Crump, that the railway  
24 plants were greatly depreciated during this particular  
25 time, that the returns didn't permit the proper main-  
26 tenance; is that the sense of it?

27 A. At no time was there a lack of maintenance  
28 for safety. There was a rigid control on budget; there  
29 had to be, and all of the work was not done at that time  
30 that might have been done, and immediately following  
that period we went into World War II, where again it







1  
2 was not possible to do all of the work that we might  
3 have done had we full liberty.

4 Q. The plant itself, I suggest, was in  
5 reasonably good shape, having in mind the depression  
6 years; do you agree with that?

7 A. So far as the rigidly controlled budget  
8 would allow it, yes.

9 Q. I have here, for instance, Mr. Crump,  
10 a booklet entitled, "The Canadian Pacific a national  
11 institution 1885-1935, an Address delivered to the  
12 Company's officers in the 50th Year of its History."  
13 Now, I am not sure whether you are familiar with this  
14 book and this, I might say, was not written by Dr.  
15 Britnell. Previously we had spoken of the booklet  
16 entitled, "Seventy-Two Years of Progress".

17 THE CHAIRMAN: Is that published by the  
18 railway?

19 MR. DOHERTY: It is prepared by J. Harry  
20 Smith, Manager, Press Bureau. I am not able to  
21 identify the publisher of this document, Mr. Chairman,  
22 nor the person who delivered the speech, but I was  
23 hoping ---

24 THE CHAIRMAN: Who made the speech?

25 MR. DOHERTY: I am not able to identify him,  
26 sir. The publication doesn't identify the speaker.

27 THE CHAIRMAN: I am afraid that is a black  
28 cat in a dark room.

29 MR. DOHERTY: Mr. Chairman, anticipating that  
30 my friend Mr. Sinclair would take objection, I have  
another quotation which I think is perhaps----





1  
2 MR. SINCLAIR: It says, "The Canadian  
3 Pacific Railway goes to sea."

4 MR. DOHERTY: Q. This is the proceedings of  
5 a special committee appointed to inquire into and  
6 report upon the best means of relieving the country  
7 from its extremely serious railway condition and  
8 financial burden consequent thereto. It is a Senate  
9 hearing, and the document which I shall quote from is  
10 printed by J. O. Patenaude, Printer to the King's Most  
11 Excellent Majesty, and at page 564 there is a question  
12 by Mr. Biggar to Sir Edward Beatty, who was presenting  
the evidence before the Senate Committee, which reads:

13 "I suppose, Sir Edward, to return to the  
14 alternative you have referred to in your  
15 memorandum about the railways being presently  
16 in an unsound economic position ---"

He is speaking now of 1938:

17 "--- and to the possibility of something  
18 more serious than unification if traffic does  
19 not go back to the 1930 level. Would you  
20 discuss the prospects for the future on the  
21 assumption that there is no intervention by  
22 Parliament? A. I take a rather optimistic  
23 view of my own company's prospects because  
24 of the way it has weathered the storm of the  
25 last few years. I expressed that to my  
26 shareholders at the annual meeting on  
May 4. This is the way I put it:

27 "Your well-located, well-constructed  
28 and well-maintained properties  
29 are in condition to ensure







1  
2 efficient and modern transportation service  
3 for the nation. Even if the company's  
4 properties continue to be operated separately  
5 and in competition with the Canadian National  
6 Railways my considered view is that there  
7 is no reason for pessimism in regard to the  
8 future outlook of the company. It is  
9 hardly necessary for me to repeat that,  
10 should they be joined with those of the  
11 Government-owned railway in a rationalized  
12 system, most important advantages would  
13 result to the owners of both properties."

14 MR. SINCLAIR: Could the witness just have  
15 his eye on that? It is pretty hard to keep that all  
16 in mind. It is page 438?

17 MR. DOHERTY: I have it marked. It is page  
18 564.

19 THE WITNESS: Yes. What is the question, Mr.  
20 Doherty?

21 MR. DOHERTY: Q. My question was simply  
22 this: it would appear that in these years, despite the  
23 depression and the low earnings of the Canadian Pacific  
24 Railway plant, it was maintained and continued to be  
25 in good operation beyond that period, that depression  
26 period. What is your view?

27 A. I can comment on that in this way, that if  
28 my memory serves me correctly, that same question was  
29 asked of me a number of years ago by one of the gentlemen  
30 in this court.

31 THE CHAIRMAN: I have recollections.





1  
2 THE WITNESS: I wish to say this, that the  
3 property was safely maintained. Now, whether it was  
4 well maintained, I am inclined to dispute because I was  
5 out helping to maintain the property at that time and  
6 perhaps I was a little closer to the maintenance of the  
7 property than was Sir Edward.

8 MR. DOHERTY: Q. It would, I suggest, seem  
9 to indicate a good deal of optimism as to the condition  
10 of the plant?

11 A. I think in weathering the storm of the  
12 thirties that they did do very well.  
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17 (Page 4024 follows)  
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2 Q. Yes, I agree. Now, Mr. Crump, I believe  
3 you were in Saskatchewan in the 1930's; is that right?

4 A. Manitoba, Saskatchewan and Alberta.

5 Q. So you would be well aware of some of  
6 the problems that faced the citizens of those  
7 provinces, including droughts and grass-hoppers and  
8 low prices and prices for grain.

9 A. I was very close to the earth in those  
10 days. It is a fact.

11 MR. SINCLAIR: We have still got them.

12 Q. Proceeding to page 3 of your precis,  
13 Mr. Crump, at the bottom of the page, the section  
14 you have designated (a), you say:

15 "The fixed level of statutory freight  
16 rates on western Canadian grain."

17 Then you say:

18 "The rigidity of the statutory rates  
19 on grain and grain products has prevented  
20 revenues from this segment of traffic  
21 being increased in keeping with  
22 increases in the cost of transportation".

23 If I may speak briefly to the period  
24 immediately preceding 1955 - I am speaking now of  
25 the period during which Canadian Pacific Railways  
26 was under contract to haul grain at reduced rates -  
27 would you not also agree that there was a certain  
28 rigidity in those rates? I am speaking only to  
29 the question of rigidity.  
30





1  
2 A. You are speaking only to rigidity  
3 without regard to cost? Yes, there was some  
4 rigidity.

5 Q. So that the statutory base doesn't  
6 really introduce any new element insofar as rigidity  
7 is concerned. Would that be true?

8 A. Well, we have had that rigidity for  
9 a good many years.

10 Q. At the bottom of page 5 of your precis,  
11 Mr. Crump, you are speaking - this is the last  
12 line, in which you say Canadian Pacific was \$189  
13 million short of reaching the permissive earnings.  
14 Now, am I correct in my understanding, Mr. Crump,  
15 that this amount does not take into account any  
16 earnings from assets other than rail assets.

17 A. This is on the Board's separation  
18 from rail.

19 Q. And it would not include anything,  
20 for example, from Consolidated Mining and Smelting?

21 A. No, this is on the Board's basis.

22 Q. On page 9 you mention at the bottom  
23 of the page, you are speaking of the extremely high  
24 labour content in railway operating expenses. Mr.  
25 Dickson has dealt with this just prior to my  
26 bringing it to your attention, and I was wondering,  
27 though, if you had any type of DBS statistics or  
28 something in that category which indicated that the  
29 railway industry was unique in its labour content.  
30 For instance, it would be my understanding that a  
good many industries' production would have a labour







1  
2 content of something better than 45 per cent, perhaps  
3 better than 55 per cent.

4 A. I haven't that information on me,  
5 but I have seen statements from time to time, which  
6 were the basis of this remark, which would indicate  
7 that the railway is close to the top of the list.  
8 Here is an example, and this does not include amounts  
9 for pensions and benefits because they were not  
10 obtainable from other industries in the form in which  
11 we keep ours. So this is on a comparable basis.  
12 For Canadian Pacific, in 1958, the labour content  
13 was 50.67; the Bell Telephone was 35.85. The  
14 slaughtering and meat packing industries is not  
15 available in 1958, but in 1957 it was 10.4; the  
16 motor vehicle industry 15.31. The pulp and paper  
17 industry is not available for 1958, but in 1957 it  
18 was 21.67. This statement is headed:

19 "Proportion of revenue dollars spent  
20 on payroll"

21 Q. And that is from the Dominion Bureau  
22 of Statistics?

23 A. The source is not noted here. Oh,  
24 Canadian Pacific - from the Canadian Pacific annual  
25 report, and the Bell Telephone from Bell and the  
26 Dominion Bureau of Statistics for the slaughtering  
27 and meat packing industries for 1957, and the  
28 motor vehicle industry 1958 and the pulp and paper  
29 industry 1957.

30 Q. On that same page, page 9, the





second paragraph contains the statement:

"Our increasing population, the expanding gross national product, the development of new industry and the tapping of new sources of minerals, create new demands for rail facilities which necessitate the construction of new branch lines, the provision of more rolling stock and increases in the traffic handling capacity of segments of the railway".

Now, you are not suggesting, I take it, Mr. Crump, that the railway was under any compulsion whatsoever to extend the facilities because of these factors that you have mentioned.

A. That they are not under any compulsion? I agree with that. If we wish to go out of business, we have no need to keep up with the expansion of Canada.

Q. The word "necessitate" is not intended to imply compulsion.

A. Oh, ~~necessitate~~ - I don't change that word, but it is not compulsion. They are two different words.

Q. But your reasons for extending were for normal business reasons, that is, to obtain profit..

A. That is right.

Q. I wonder, Mr. Crump, if you could perhaps







1  
2 comment as to what problems, if any, or assistance,  
3 if any, the orderly marketing of wheat has been insofar  
4 as the railways are concerned. I am thinking now  
5 there must have been a change in the pattern of  
6 movement. I wonder if you could comment as to what  
7 effect this may have had on the railways.

8 MR. SINCLAIR: May I say that I don't  
9 understand the question. What do you mean by "orderly  
10 marketing"?

11 THE CHAIRMAN: You mean the demand for  
12 equipment, for more equipment?

13 MR. DOHERTY: I was thinking of the position  
14 that existed a good many years ago when wheat was  
15 pretty much carried to the head of the lakes immediately  
16 at the crop season or from threshing. Now, there  
17 is a good amount of storage being done.

18 MR. SINCLAIR: You mean storage in box  
19 cars?

20 MR. DOHERTY: No, I am thinking ---

21 MR. SINCLAIR: There is some of it being  
22 done, yes, sir.

23 MR. DOHERTY: Q. Would you care to  
24 comment on that, Mr. Crump, or am I being unfair in  
25 that.

26 A. No, I don't think so. Since the  
27 government took over the marketing of wheat and barley  
28 and oats there has been a much more orderly marketing  
29 of grain. I think what you have in mind, perhaps,  
30 is 1928, the years previous to 1928.

Q. Yes, approximately.





1  
2 A. And it has had the effect of levelling  
3 out the hills and valleys somewhat, giving us a  
4 little more regular traffic movement.

5 Q. You could perhaps put your equipment  
6 to better use?

7 A. As Mr. Sinclair says, I think that  
8 might be a very debatable question.

9 Q. You have spoken in your precis, Mr.  
10 Crump, to providing a transportation service at the  
11 lowest cost, and at the bottom of page 12 you say  
12 there:

13 "Canadian Pacific management is concerned  
14 with providing transportation service at  
15 the lowest possible cost and is also  
16 concerned with the equitable distribution  
17 of that cost over the various types  
18 of traffic which move on the railway".

19 Now, on page 10 there is an implication  
20 that higher rates than necessary have been charged;  
21 that is in the paragraph at the bottom of the page,  
22 the third line. The words are:

23 "...by charging higher rates than  
24 would otherwise be necessary."

25 Is it a fact that in certain instances  
26 higher rates than are necessary are being charged?

27 A. It depends what you mean by "higher  
28 rates than are necessary". The point I am trying  
29 to get at there is, of course, that because such a  
30







1  
2 large segment of the traffic we move is exempted  
3 from any of these increases that have taken place  
4 since 1947 it has been necessary to place that portion  
5 of the cost that would have gone on that segment had  
6 there been no statutory control on the other  
7 segments of the traffic.  
8  
9  
10

11 (Page 4039 follows)  
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1  
2 Q. Then, you also speak, on page 12 of your  
3 concern with the equitable distribution of that cost.  
4 I believe also you have said that traffic should bear  
5 a fair contribution to cost. In the case of Crow's  
6 Nest rates, in your proposal, as I understand it, you  
7 propose that the fair contribution that Crow's Nest  
8 should bear is the total cost?

9 A. I believe it must, because it is such a  
10 large segment of the traffic. If we charged variable  
11 cost and a proportion of constant cost to all of our  
12 traffic we would go bankrupt.

13 Q. The point concerning me, Mr. Crump, is the  
14 principle of equitable distribution of that cost. Then,  
15 you would say this principle cannot apply in so far as  
16 Crow's Nest rates are concerned?

17 A. It is not being applied to Crow's Nest  
18 rates, no.

19 Q. On page 15, in the second last paragraph  
20 on that page, you are speaking of the problems of the  
21 Western farmer, and about halfway down the paragraph  
22 you say:

23 "Until there is a marked change in the  
24 situation, the Canadian farmer cannot, without  
25 hardship, pay out of the sale price of grain, a  
26 just and reasonable rate for moving grain and  
27 grain products to export positions."

28 My question would be, is there any particular  
29 thing that you have in mind as indicating a marked  
30 change?

A. I should say that would be when the net







1  
2 return to the farmer puts him in a comparable position  
3 with all other segments of the Canadian economy.

4 Q. At that time, when that period of marked  
5 change, as you define it, has been reached, then the  
6 farmer would be subject to rates on Crow's Nest grain  
7 at a rate which would be 200 per cent of the present  
8 rate; is that correct?

9 A. I should think when that time arrived,  
10 that he was on a comparable basis with other segments  
11 of the Canadian economy in the matter of return, that  
12 he should bear his full share of the cost as other  
13 segments of the Canadian economy are doing.

14 Q. And would you consider that would not  
15 be detrimental in a large measure to the agricultural  
16 interests in Western Canada?

17 A. Not under the supposition that I made.  
18 I realize the difficulties inherent in this problem.  
19 When that time will arrive, I don't know. With the  
20 government marketing of grain, the negotiations largely  
21 between governments, the accentuated growth of national-  
22 istic attitudes throughout the world, I am sure I don't  
23 know when that time will arrive.

24 Q. May I turn to page 18, at the top of  
25 the page, in the third line you say:

26 "The Canadian manufacturing industry is  
27 protected by the Customs Tariff."

28 Would that not also apply to the Canadian Pacific?  
29 Doesn't the Customs Tariff aid the Canadian Pacific  
30 as well?

A. Indirectly it does, but what I had in





1  
2 mind there, of course, was such items as refrigerators  
3 and electric stoves and that sort of thing -- the cost  
4 in Canada as compared to the cost in the United States;  
5 automobiles, and innumerable objects.

6 Q. Would the Customs Tariff provide an  
7 aid to the railway in this east-west movement?

8 A. It would aid the railway as it aids  
9 Canadian economy, which is the reason it is there.

10 Q. But it produces revenue for the railways  
11 by promoting that east-west traffic?

12 A. I don't quite follow you on that.

13 Q. I have in mind that the pattern of national  
14 policy, as I understand it, was to promote an east-west  
15 west-east traffic rather than a north-south traffic?

16 MR. SINCLAIR: John A. Macdonald has been  
17 dead for a long time.

18 THE WITNESS: This is a natural. I think  
19 it may be described best in some words I recently saw,  
20 that Canada is a long lean country whereas the United  
21 States is a long fat country, and I think that ade-  
22 quately describes the transportation problem in the  
23 two countries, because of this 4,000-mile band 200  
24 miles deep that stretches across the country. If you  
25 are talking about diverting the normal economic channels  
26 of trade from the natural channels of north and south  
27 to east and west, which we did by political decision,  
28 that is one thing, but it must flow east and west to  
29 remain in Canada.

30 Q. Yes. I have one further question on  
that same page. You say in the next paragraph:







"It will be noted that the freight rate assistance provided to the coal industry . . ."

-- and a little later on you talk about feed grain.

Now, in the Crow's Nest situation, at least until 1925 -- and this is a question which is open to argument -- there was an agreement to carry grain at reduced rates; isn't that right -- up to 1925? I am not getting into the controversy on the question of whether the agreement is still valid or not?

A. That is right.

Q. So, there would be a difference between the Crow's Nest situation and the situation mentioned here inasmuch as there was no contractual base in this instance such as we had in the Crow's Nest situation?

A. There would have been up to the period in 1925. I see no difference today.

MR. DOHERTY: Thank you, Mr. Crump.

MR. FRAWLEY: Mr. Chairman, I am left as the last one to question Mr. Crump, and I always feel badly about keeping a witness over specially. There are other people to be considered besides myself, but my notes, by the rather natural effect of the people who have gone before me, have been reduced considerably; I won't repeat any questions. Of course, I must consider the Commission, but for my part I certainly would be anxious to oblige Mr. Crump, but we might get started and we might get into a conversational dialogue.

THE CHAIRMAN: I think likely we will get into dialogue, Mr. Frawley. However, if Mr. Crump would like to sit down, we will be glad to oblige him,





1  
2 I am sure.

3 MR. FRAWLEY: I just said that out of a  
4 feeling that if we brought him back in the morning ---

5 MR. SINCLAIR: There may be one or two  
6 questions in re-examination.

7 THE WITNESS: May I speak to this question,  
8 Mr. Chairman? Mr. Frawley and I, as you know, might  
9 go on for some time, and the Commission has had a very  
10 busy day. I will be glad to come back tomorrow  
11 morning, and if I can count on being released not too  
12 long after that, I will be very happy to oblige.

13 THE CHAIRMAN: Thank you, Mr. Crump.

14 MR. SINCLAIR: Mr. Chairman, before the  
15 Commission rises, there is one point I would like to  
16 draw the Commission's attention to. I would like to  
17 do it before some of the counsel move out to the west  
18 in particular, and that is as to the dates and the  
19 briefs. I have made inquiries of the Secretariat of  
20 the Commission and they have told me of certain  
21 intentions -- people have indicated intentions to file  
22 briefs. Looking at this list of people who have  
23 intentions to file briefs, it rather appears, sir, that  
24 we are not going to have very many briefs in Western  
25 Canada unless somebody is going to lay them on the  
26 doorstep of the Commission the day they arrive. I  
27 was handed a notice saying, "Please send the briefs to  
28 the Commission at the hotels because you are late  
29 getting them in."

30 Mr. Chairman and members of the Commission, if  
we are going to be of any assistance to you we must have







1  
2 an opportunity of looking at those briefs, and I would  
3 ask the Commission to say to all people who intend to  
4 submit briefs that they would file them immediately.  
5 There is no advantage in holding onto them; there is  
6 no advantage to them in us having to ask them to stand  
7 down, because that is what we will have to do.

8 THE CHAIRMAN: I may say that I have,  
9 personally, got in touch with counsel for all the  
10 provinces and told them to get these briefs in your  
11 hands and the hands of the Commission in two weeks.

12 MR. SINCLAIR: Two weeks?

13 THE CHAIRMAN: Yes. I think you will have  
14 the Manitoba briefs this week.

15 MR. SINCLAIR: Mr. Mauro tells me he will  
16 send them along to me, but, you see, we move at quite a  
17 pace across Western Canada, and it has been my exper-  
18 ience there that some of these groups who have large  
19 research staffs, particularly in the grain industry,  
20 might very well let us have their briefs too, if they  
21 are going to present them.

22 THE CHAIRMAN: Well, that goes for all the  
23 briefs in the West, except, as you know, there will be  
24 -- and you speak of the grain marketing -- and they  
25 are going to present their briefs in Ottawa, so that  
26 will be later on in the year.

27 MR. McKICHAN: That is correct, Mr. Chairman.  
28 A decision was still pending when I left Winnipeg as to  
29 whether or not the organization which I represent would  
30 present a brief in the West, and I have not yet heard a  
31 decision. It is possible we may feel content to present





1  
2 our position by argument in Ottawa towards the end of  
3 the hearings when we have heard the full substantive  
4 case of the railways.

5 MR. SINCLAIR: You see, Mr. Chairman, in the  
6 court room today I saw some of the generals of this  
7 grain army: there was Mr. Lamont, Mr. Raik, and others,  
8 and I thought to myself, "Here they are and I haven't  
9 even seen what they are going to say."

10 THE CHAIRMAN: They were interested spectators,  
11 I have no doubt.

12 MR. SINCLAIR: Well, I thought if they were  
13 going to present briefs, we should have them in.

14 THE CHAIRMAN: We will try and get them as  
15 soon as possible.

16 MR. SINCLAIR: From any party that is going  
17 to present a brief?

18 THE CHAIRMAN: Any parties.

19 MR. SINCLAIR: Fine.

20 ---Adjournment.  
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*Mr. McQuay*

# ROYAL COMMISSION

ON

## TRANSPORTATION

### HEARINGS

HELD AT

OTTAWA

VOLUME No.:

DATE:

28

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
the Court Room, Board of Transport  
Commissioners Offices, Ottawa,  
Ontario, on the 27th day of  
January, 1960.

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Ottawa, Ontario,  
January 27th, 1960.

---On commencing at 10:00 a.m.

THE CHAIRMAN: Order please, gentlemen.  
Mr. Frawley?

CRUMP, NORRIS ROY, resumed.

CROSS-EXAMINATION BY MR. FRAWLEY:

Q. Thank you Mr. Chairman.

Mr. Crump, at one time you felt that the western grain grower could carry the extra burden of bringing the export grain rates up to what you thought was a reasonable level?

A. Yes, at one time we felt so.

Q. But now you are of the opinion that the western farm economy cannot be asked to pay increased rates?

A. That is our opinion now.

Q. And I might say -- just, perhaps, in parenthesis -- that it is more than the western economy that would be involved; isn't it, Mr. Crump?

A. To the degree that this cost of net to the National Treasury would ---

Q. Well, I don't mean in connection with your proposal, but I mean if the rates were just increased and put back under the Board and increased 100 per cent, as your proposal actually does, and then if the grain could not pay those higher rates, it would be difficult to put the grain into market?

A. Under those circumstances, it would.





1  
2 Q. And then the whole national economy  
3 would be affected?

4 A. I agree with that.

5 Q. And our whole industrial complex would  
6 be affected because the purchasing power of that  
7 western grain grower would be reduced?

8 A. That is becoming perhaps not quite  
9 as important a segment of our national economy as it  
10 was a few years ago due to the industrialization of  
11 Canada -- but, essentially, yes.

12 Q. And in some provinces -- and perhaps  
13 I do not speak too much for those provinces -- but  
14 in some provinces a lowered purchasing power of the  
15 grain grower would seriously affect the purchasing  
16 power of that whole provincial area?

17 A. I agree with that.

18 Q. Now, Mr. Crump, which came first -- the  
19 decision that there should be a 100 per cent increase  
20 in these export rates and that a 100 per cent increase  
21 would be a fair rate, or the cost study reporting?

22 A. Well, we have felt for some time that,  
23 from our knowledge of the situation, that it was  
24 somewhere in that vicinity and the cost study verified  
25 in more detail than we had that that was the increase  
26 required.

27 Q. I mean, did you feel, when you say  
28 for some time because of other studies that had been  
29 made?

30 A. Well, as you know, Mr. Frawley, we  
had a preliminary study at the last Royal Commission.







1  
2 Q. Yes. And because of those earlier  
3 studies and your general feeling of the pulse of your  
4 business, you felt that about a 100 per cent increase  
5 would put the rate where it should be?

6 A. Well, we did not know precisely what  
7 the increase was, of course, until the complete study  
8 was made. But, as far as our feeling of the  
9 situation was concerned, it was in that vicinity.

10 Q. What I am interested in is whether or not  
11 the cost study that purported that the average full  
12 cost was one cent per ton mile -- whether that  
13 confirmed your view, perhaps your decision, to put  
14 the rate at 100 per cent increase, or was it the other  
15 way around?

16 A. It confirmed our view.

17 Q. It confirmed your view. So, you spent  
18 this quarter of a million dollars just to confirm a  
19 view you already had?

20 A. Oh, yes.

21 Q. And you did it by this, to some of us,  
22 a most abstruse and difficult to understand method of  
23 arriving at the cost of moving the grain in western  
24 Canada?

25 A. May I say you are not alone in that  
26 feeling that it is rather abstruse.

27 Q. But there was nothing abstruse about  
28 the conclusion you came to in earlier years that  
29 according to your costing reports that you had that  
30 the grain was not producing its full cost?

A No, I do not think there was anything





1  
2 abstruse about that.

3 Q. Now, Mr. Crump, doesn't it sometimes  
4 strike you as a little bit incongruous that a raw  
5 product like wheat harvested in western Canda without  
6 a dollar spent on it, except the harvesting cost, and  
7 in that respect like ore taken from a mine, that it  
8 should pay full cost -- fully distributed cost -- when  
9 you have finished products or partly finished products  
10 paying less than full cost.

11 A. No, it does not strike me as incongruous  
12 in the least, because of the volume of this movement.

13 Q. Well, I would have thought, and this  
14 is where I am certainly an amateur economist, but I  
15 would have thought that volume would reduce because  
16 rather than increase them, that if you milled all  
17 the hundreds of thousands of bushels of grain in  
18 western Canada, that you could get your price down?

19 A. It is down, Mr. Frawley.

20 Q. You want to put it right back up by  
21 100 per cent?

22 A. Correct.

23 Q. And that is where you think it should  
24 be; that is your considered opinion.

25 A. That is my considered opinion.

26 Q. And when you say cost -- let there be  
27 no mistake on the record -- when we speak of fully  
28 distributed cost, we mean the actual or variable  
29 cost or out-of-pocket cost of moving it actually,  
30 plus a lot of other things; like, commonly called  
overhead costs, head office salaries, and such things







1  
2 as that -- everything?

3 A. Yes, that is right.

4 Q. Money to pay dividends?

5 A. Money to meet all the needs of the  
6 corporation.

7 Q. That's right. That's right. And it  
8 does not add much for me to list them -- moneys to  
9 pay the fixed charges on the outstanding debt?

10 A. To contribute towards those.

11 Q. To pay your dividends so that you can  
12 keep as respectable as you can in the money market?

13 A. Quite right.

14 Q. And something more -- this famous  
15 something more that the Board calls a surplus. It  
16 has been called many things, but when you say fully  
17 distributed costs, you have got all those things;  
18 there is nothing more to think of?

19 A. I agree with that.

20 Q. And grain, this basic commodity in  
21 western Canada, and moving thousands of bushels, and  
22 a completely raw product -- you think it should have  
23 full cost?

24 A. I certainly do.

25 Q. And at the same time, and I wish I  
26 could think of a happier example, but at the same  
27 time you will move coil steel, sometimes called  
28 skelp, from Hamilton to Vancouver for 95 cents, which  
29 is not full cost in the same sense that you want  
30 full cost from grain?

MR. SINCLAIR: Ninety-five cents per what?





1  
2 MR. FRAWLEY: Ninety-five cents per hundred  
3 lbs.

4 A. I can imagine that. I do not happen  
5 to know the rate on skelp, but I can well imagine that,  
6 because if there is a portion over and above the  
7 variable cost contributed to constant cost of the  
8 movement of that skelp, then it is desirable to  
9 keep it on the railway, rather than lose it to the  
10 competition, which we would certainly do otherwise.

11 Q. That is certainly right. And when I  
12 use that illustration, I do not want to be misunderstood  
13 -- sometimes I think I am misunderstood, and sometimes  
14 I think I am deliberately misunderstood by those who  
15 do not wish to understand me -- when I point my  
16 finger at the skelp, that does not mean that I think  
17 you should not keep the mill at Port Moody well-  
18 supplied with this skelp at that rate. Making a  
19 comparison that you have a situation which requires  
20 you -- let me just interrupt myself, again. You  
21 are not making that rate 95 cents because you  
22 particularly want to make it 95 cents?

23 A. I am sure of that.

24 Q. You would like to make it double 95  
25 cents if you could, and if the competition would  
26 permit you to do so?

27 A. Certainly.

28 Q. But that being the fact, you now say  
29 that this product that is not subject to any  
30 competition -- a product on which you have a monopoly  
of movement -- you want full cost. And, then, you







1  
2 at the same time have to look at a rate like the  
3 skelp and many, many others, where you have to go  
4 away down below full cost?

5 A. As you have stated it, I agree with you,  
6 Mr. Frawley.

7 Q. You said that you must have your full  
8 cost because it is on the export grain, because it is  
9 a haul that is basic to the plant.

10 A. It is certainly basic to the western  
11 plant.

12 Q. Basic to the western plant. That is  
13 a modification that I am glad to see you make -- it  
14 is basic to the western plant because it certainly is  
15 not basic to the whole Canadian Pacific plant?

16 A. No, but two-thirds of our plant lies  
17 in the west, and I think it could be construed the  
18 way it has been said.

19 -

20 -

21 -





1  
2 Q. And now, when you said that it is basic  
3 to the plant, again there was a further definition  
4 which says that the western plant was constructed  
5 to maintain that grain.

6 A. I don't agree with that.

7 Q. I am glad you don't agree with that,  
8 because let me site you a few lines in western Canada  
9 which I know just a little bit about. In the lines  
10 lying west of Calgary and Edmonton, they were not  
11 constructed or maintained to haul grain.

12 A. Not constructed to haul grain, but  
13 they are hauling grain.

14 Q. They are hauling grain because grain  
15 is a very important element in the economy.

16 A. And it is of the western movement.

17 Q. You built some of these lines out into  
18 that mixed farming country west of the Calgary and  
19 Edmonton line?

20 A. Yes.

21 Q. There is a very fine hog producing  
22 area out west of Ponoka. Now, of course, and I  
23 think you being the realist that you are, you know  
24 that you don't haul many hogs out of Blind Man Valley  
25 at all.

26 A. Well, I don't know what hog products  
27 we haul out of that particular territory at this time,  
28 but from what I see I suppose we were hauling some.

29 Q. I suggest to you that that Alberta  
30 livestock going to plants moves largely by truckers,  
either the "for hire" truckers or the farmers







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2 themselves.

3 A. That has been the result of the  
4 competition.  
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2 Q. So that if you are hauling grain - I  
3 suppose you are hauling the grain out of the Blind  
4 Man Valley. No, there wouldn't be much doubt  
5 about that, largely - oh, perhaps entirely.

6 A. I don't know the particular position  
7 there, but on the rates at which we haul grain I  
8 would assume that the trucker is not interested.

9 Q. That may be so. If you are hauling  
10 grain now it is because of the other purpose for  
11 which I suggest you constructed the line or the  
12 line was constructed, namely, the development of  
13 mixed farming and bringing the settlers in there and  
14 locating them on the land, that you have lost that  
15 to competitive forms of transport?

16 A. We may very well have lost some of it,  
17 and there is a shift in that, of course, but that  
18 could well be.

19 Q. I am thinking of any area like that,  
20 and I am simply selecting it as being a good  
21 illustration of mixed farming in Alberta, with  
22 maybe emphasis on livestock, and I put it to you  
23 that those lines were put out there to develop  
24 mixed farming.

25 A. I don't know which section you are  
26 referring to. Certainly the area west of C. & E.  
27 is a mixed farming area.

28 Q. There is the Northern Alberta Railway.  
29 Now, you wouldn't say that the Northern Alberta  
30 Railway or the old Edmonton-Dunvegan and B.C. Railway -  
you wouldn't say that those lines were built basic







1  
2 to the grain industry.

3 A. Well, they haul grain out of the  
4 Peace River country.

5 Q. They do, and they also haul livestock  
6 or would haul livestock if the truckers wouldn't  
7 haul it out.

8 A. Probably we did, and still do.

9 Q. Surely that was a railway that was  
10 a pioneer, a frontier railway, to develop the  
11 Peace River country.

12 A. It was built for that purpose, yes.

13 Q. And the other one over on the east  
14 side that we are hearing now a little more about,  
15 that was certainly not developed to haul grain  
16 primarily?

17 A. No; I would say the Waterways  
18 section was built to develop that particular section  
19 of the country, a pioneer railway.

20 Q. Now, Mr. Crump, would you look at  
21 your precis, please, and there are a few bits there  
22 that I would like to discuss with you. On page  
23 3 you say there about the middle of the page, the  
24 second full paragraph - I am just picking out the  
25 paragraph there -

26 "...Canadian Pacific must earn from  
27 its railway operations a sum over and  
28 above fixed charges which will provide  
29 a fair return upon the equity capital  
30 invested in the railway enterprise."





1  
2 Then probably along with that, in the  
3 same context, would you turn over to page 6, because  
4 there you cite that well-worn case of Northwestern  
5 Utilities in the Supreme Court of Canada, and where  
6 you take the piece that says that a utility, a  
7 public utility must be allowed to earn as large  
8 a return on the capital invested in its enterprise  
9 as it would receive if it invested the same sum  
10 in other securities; and there was an earlier bit  
11 also in the judgment in which they indicated that  
12 when you are looking at a public utility the  
13 important thing is the rate base and the rate of  
14 return on the rate base, and you will agree, of  
15 course, Mr. Crump, that Northwestern Utilities  
16 operates on the rate base and rate of return concept.

15 A. Oh, yes.

16 Q. Whereas the Canadian Pacific,  
17 notwithstanding its best efforts in that regard,  
18 was not permitted to go on a rate base rate of  
19 return basis?

20 A. Well, at least we established a rate  
21 base satisfactory to the Board, and it does provide  
22 another test.

23 Q. But, you see, what I want to discuss  
24 with you is the consequences, because let's assume  
25 now that you should be allowed to earn  $6\frac{1}{2}$  per cent -  
26 that is the figure that has been mentioned here -  
27  $6\frac{1}{2}$  per cent on your established property investment  
28 account which you say is your rate base - I  
29 suppose we could call it a rate base as well as call  
30







1  
2 it your property investment account - but suppose  
3 you were allowed to earn  $6\frac{1}{2}$  per cent on your rate  
4 base, a calculation was made here that that would  
5 require and entitle you to an increase, a freight  
6 rate increase of  $17\frac{1}{2}$  per cent to take care of that  
7 difference alone, the difference of the permissive  
8 level of earnings that you are now getting under  
9 the requirements formula and the dollars that would  
10 result in making the calculation of  $6\frac{1}{2}$  per cent  
11 on your rate base. Now, Mr. Crump, if you assume  
12 that figure as correct - it is not intended to be  
13 accurate, it is only intended to be a rough figure;  
14 maybe you people have worked out one, because you  
15 are most industrious about those things, maybe you  
16 have worked out one for yourself. I have never  
17 found the Canadian Pacific short in that regard.  
18 So would you take my  $17\frac{1}{2}$  per cent, roughly, or  
19 do you have a more accurate one?

20 A. No, I will take your figure, because  
21 I haven't worked it out.

22 Q. Now, what I am saying to you is simply  
23 this: would it be fair to assess an increase of that  
24 size on the Canadian freight structure at the present  
25 time?

26 A. In order to attain our permissive  
27 level of earnings?

28 Q. That is right.

29 A. Well, I think that in combination with  
30 perhaps some decrease in cost we might be able to  
attain that and still be fair to the economy.





1  
2 Q. You think it would be fair to put  
3  $17\frac{1}{2}$  on the freight rate structure as it now stands  
4 when agreed charges, just to take one segment, can  
5 take such an inconsequential part of any increase that  
6 the Board may authorize, and that is what I want to  
7 bring to your attention. Don't you think it is  
8 patently unfair to put substantial increases of  
9 that kind, however justified they are, because my  
10 assumption is that it would be justifiable to bring  
11 your permissive earnings up to where they should be.

12 A. Well, of course, we have offered  
13 another solution here. If we had a just and reasonable  
14 level of rates on grain, that  $17\frac{1}{2}$  per cent wouldn't  
15 be required.

16 Q. May I say purely in passing, Mr. Crump -  
17 I don't know whether you know it or not - in the  
18 last three revenue cases the Province of Alberta  
19 didn't oppose your application for the number of  
20 dollars you wanted, but we did strenuously oppose  
21 the application offered on this distorted freight  
22 rate structure.

23 A. I was aware of that.

24 Q. Because there was a time when we used  
25 to complain about the number of dollars you spent on  
26 coal and ore wharves.

27 A. Yes, I can well recall a number of  
28 items, Mr. Frawley.

29 Q. Those are in the days when we were  
30 really complaining about the general financial  
necessity, the need for these additional amounts of







1  
2 money.

3 A. Yes.

4 Q. It is a peculiar kind of cross-  
5 examination, isn't it, Mr. Crump, and I am glad that  
6 you know that, that speaking for the Province of  
7 Alberta at least I have only been concerned to say  
8 thus far and no further until this freight rate  
9 structure has been straightened out. You are aware  
of that?

10 A. Yes.

11 Q. And I say it should be straightened  
12 out other than doing what you say to give you an  
13 adequate level of earnings.

14 A. I understand that the terms of  
15 reference of this Honourable Commission is going to  
do just that.

16 Q. Perhaps it is too bad we got off on  
17 the wrong foot, the Crow foot, perhaps, because  
18 there are so many other things in this freight rate  
19 structure than Crow.

20 A. In any event, all of those subjects  
21 in the terms of reference are going to be held, and  
22 it seems to me that we should look at that objectively and  
23 dispassionately, and perhaps this is the way to do  
it.

24 Q. Perhaps you should permit me to say  
25 that the word Crow foot is a very honoured name in  
26 Alberta.

27 A. I know a great deal of the history  
28 of Crow in Alberta.

29  
30





1  
2 Q. Would you turn to page 4, because there  
3 is something there I would like to ask you about?  
4 You say there that because of the statutory rate  
5 the railways have been under the necessity of  
6 attempting to recover increased costs from only  
7 a segment of their traffic. Now, Mr. Crump, that  
8 is the way you say it, but, rather, don't you think  
9 you should say that because of the forcing down of  
10 your rates from many causes you have been forced  
11 to recover your increased cost from only a segment  
12 of the traffic.

13 A. No, I don't agree with that, Mr.  
14 Frawley. I think it should be said as I have  
15 said it here.

16 Q. Are there not some economic facts  
17 which have required you to get your increased costs  
18 from only a segment of the traffic?

19 A. Oh, yes, I am not disputing that in  
20 the least.

21 Q. A situation arises, and an excellent  
22 example was the most recent wage award that you  
23 were required to agree to, the one that resulted  
24 in a 17 per cent increase. That was a very real  
25 and definite additional number of dollars that you  
26 had to put into your wage costs.

27 A. It certainly was.

28 Q. And you were not able to spread that  
29 cost equitably over the whole freight rate structure?

30 A. No, no more that we have been able  
to in any of the increases since 1947.







1  
2 Q. Perhaps it would be worthwhile, for  
3 the record, to examine very briefly some of the  
4 segments of traffic in addition, I may say, to the  
5 statutory rates, that you were not able to go to,  
6 to seek recompense for this big additional wage bill.  
7 Now, as to the passenger deficit, I suppose that  
8 it is a fact that some of those extra wages that  
9 you had to pay were wages for personnel engaged  
10 exclusively in the passenger traffic?

11 A. Yes, some of them would be.

12 Q. But that part of the revenue couldn't  
13 take any increase.

14 A. Well, that is a problem that is within  
15 control, I think, and will be controlled in the  
16 reduction of the passenger deficit.

17 Q. Yes, I quite understand the distinction  
18 that you make, but just dealing first with the  
19 bare facts before they are touched up at all, the  
20 bare fact is because of the very nature of that  
21 operation, being a deficit operation, you couldn't  
22 go to your passenger fares and say there will have  
23 to be, because of these extra wages, a 10 per cent,  
24 15 per cent increase in fares.

25 A. Yes, that is correct.

26 Q. Your passenger officers are striving  
27 to get people to get on the trains and to do that  
28 they are reducing the fares rather than increasing?

29 A. Well, that reduction was an experiment,  
30 an experiment only, to see if people could be  
attracted back to the rail. It is rather difficult





1  
2 to say at the moment what effect it has had. The  
3 month of November was completely distorted by the  
4 Grey Cup and, of course, the month of December by  
5 holiday traffic. But as I see it at the moment,  
6 I don't think that the experiment has been a success.

7 Q. Then we go on to another segment,  
8 and that is agreed charges. Just think, Mr. Crump,  
9 when you are thinking of it in this context, some  
10 agreed charges have been moving traffic since 1954  
11 without having taken a single increase. Just think  
12 of those. They certainly haven't been bearing their  
13 proportion of the increased costs.

14 A. There may be some.

15 Q. And as many of them as there are,  
16 that is another segment of the traffic, through no  
17 fault of your own, where you cannot go to distribute  
18 these extra wages.

19 A. That is one of the segments, as I  
20 mentioned here, that perhaps the statutory rates --  
21 which, of course, bear no part of these costs, but  
22 there are other segments that, in order to get  
23 the traffic on the railways, perhaps the rates have  
24 not been increased, but they are meeting their  
25 variable costs and their contribution to constant  
26 cost.

27 Q. Because you cannot get what you would  
28 like and because you cannot put automatically these  
29 increased costs on the various traffic, I don't  
30 suggest for a moment that you should become  
frightfully annoyed about it and refuse to carry







1  
2 the traffic.

3 Now, the third one is competitive rates.  
4 I put it to you that there are competitive rates,  
5 a good lot of them, your traffic officers have told  
6 us about which received increases which had to  
7 be removed almost immediately.

8 A. Yes, that is a fact.

9 Q. That again is the force of competition.

10 A. Correct.

11 Q. And then there are some - I don't know  
12 how many - that your traffic officers had planned  
13 to put on, in all honesty had planned to put  
14 increases on, and the circumstances were that just  
15 before the effective date of them they had to  
16 withhold them and didn't put them on at all.

17 A. I would say there would be a few of  
18 those.

19 Q. That is another facet of the situation?

20 A. Yes.

21 Q. That traffic which couldn't take  
22 increases which resulted directly from the wage  
23 increases, then that traffic isn't bearing its  
24 fair share or any share of the increase which you  
25 required at the time of the 17 per cent increase.

26 A. Yes, within the wording of your  
27 question it is in the same category of the statutory  
28 rates; it doesn't bear any part of the increase.

29 Q. And you wouldn't be surprised to  
30 know that your fourth segment of traffic is the  
export grain. The export grain rates, therefore,





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take their place side by side - I put them No. 4;  
you probably put them No. 1.

A. We differ on the order of their  
priority.

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1  
2 Q. We differ in where they are in the  
3 period, but they are all in the same period; the passenger  
4 deficit, the agreed charges, they can't take an increase  
5 or can't take a substantial increase, and the competitive  
6 rate, that can't take a reliable increase, and also the  
7 grain rates, and I put it to you, Mr. Crump, from the  
8 standpoint of equitable distribution to increased costs  
9 they are pretty well in the same boat, and all of them,  
through no fault of your own?

10 A. Yes. The degree of that inequity, of  
11 course, is the factor that concerns us most.

12 Q. And I suppose that you are aware and  
13 sufficiently comprehensive in your objective, Mr. Crump,  
14 because I can't think of anyone more so, that what is  
15 a serious degree to you might be the opposite of a  
16 serious degree from the standpoint of the shipper, and  
17 I will put it this way, that there must be shippers  
18 who have to stand the full weight of increase after  
19 increase after increase since 1946 that know perfectly  
20 well that other segments of the economy and other  
21 movements have not had to bear the same increases; you  
are aware of that?

22 A. I think it is a perfectly natural  
23 situation which exists throughout our economy. The  
24 buyer's viewpoint is different from that of the seller.

25 Q. And it is pretty important to a shipper  
26 who would have to -- whose traffic, the goods in which  
27 he is interested moving at class rates, which takes  
28 all of the increase, one hundred per cent of all the  
increases, and he might feel there was something





1  
2 pretty wrong about the freight rate structure that  
3 permitted industry, good prosperous industries, to  
4 have rates which didn't bear the constantly rising  
5 costs of the railways?

6 A. Well, I can understand your question  
7 very well; the answer is what puzzles me, as to how  
8 that is going to be solved, and I think that is part  
9 of the purpose which we are here for.  
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1  
2 Q. That is just what I was going to say.  
3 Perhaps we look at these gentlemen and perhaps that  
4 is what the Governor-in-Council has put on their  
5 shoulders.

6 Just to give you a homely example that  
7 comes to my mind immediately. I am a farmer out  
8 in Saskatchewan -- no, I am not a farmer in  
9 Saskatchewan; a farmer out of the mixed farming  
10 country west of the C. & E. I am a farmer, and I  
11 am bringing in farming machinery from Moline, Illinois.  
12 As you know, there is no tariff against bringing  
13 that farm machinery in from the United States. And  
14 I find when that farm machinery reaches the Canadian-  
15 American boundary it then has to pay a full class  
16 rate, and has to pay 100 per cent of all the  
17 increases that you have to give to the Board to meet  
18 your increased costs. That is a factual situation.

19 A. Yes. I am glad to hear of an incident  
20 that does bear all of them.

21 Q. Even if it is the poor sod duster  
22 out in Alberta?

23 A. Now, there are many other poor people  
24 in the same classification in Canada. It is not  
25 confined to the poor sod duster.

26 Q. Now, that same farmer, then, knows --  
27 if he knows anything at all about the course of  
28 transportation and freight rates in Canada -- knows  
29 that due to the agreed charges which honey-comb  
30 eastern Canada, that large manufacturers are moving  
their goods from branch plant to branch plant and from





1  
2 factory to branch under agreed charges, which in  
3 the nature of things can take a very small part  
4 of any increase that you must have to carry the  
5 burden of your increased cost?

6 A. Well, I think the agreed charges  
7 are certainly contributing full constant costs.

8 Q. But they are not contributing full  
9 cost?

10 A. I would think so, overall.

11 Q. Oh, well, overall -- overall, I do  
12 not know. I do not know how you work that out,  
13 but probably you mean that there are enough millions  
14 of dollars in all the agreed charges.

15 A. That is my opinion.

16 Q. But there are agreed charges, and  
17 plenty of them, that you have forced down. And,  
18 again, I do not have to repeat it -- you have had  
19 to do it to keep the business on the rails?

20 A. In both east and west, not only the  
21 east.

22 Q. And right in the Province of Alberta  
23 there must be lots of them?

24 A. I would think so, with the competition  
25 we have there.

26 Q. You have lots of motor truck  
27 competition there, and there are many of them there,  
28 and whenever I give an example of skelp moving from  
29 Hamilton to Vancouver, I am not doing it to hide  
30 my head in the sand. I realize that there are lots  
of agreed charges now into Alberta.







1  
2 Now, on page 10 -- perhaps we might go  
3 to page 10 -- and I ask you to look at the sentence  
4 at the bottom of the page in which you say:

5 "The railways with the existing cost  
6 of providing transportation can no  
7 longer afford to exempt the largest  
8 single segment of their traffic from  
9 bearing a fair proportion of  
10 transportation costs."

11 Now, you seem to be fond, Mr. Crump, of  
12 speaking of the export grain rates as the largest  
13 single segment. And I do not say you do that just  
14 out of fondness; it is because that is how you  
15 regard it. But I find it difficult to understand  
16 why any segment -- any segment of your traffic --  
17 should go free from bearing its burden of these  
18 constantly increasing costs of transportation.

19 A. I wish every segment could be made  
20 to bear its full proportion of cost, but unfortunately  
21 that is not the practical situation.

22 And to answer the first part of your  
23 comment -- your inquiry -- that you find it difficult.  
24 After all, in moving the export grain, in 1958  
25 we did 27 per cent of our work done in freight, and  
26 I cannot be but unaware that it is the largest  
27 single segment of the work done.

28 Q. But now you spoke, somewhere in  
29 your precis -- and I will not bother to look it  
30 up -- that you would really like to see a conclusion





1  
2 to the controversy in western Canada over this  
3 question?

4 A. I certainly would.

5 Q. Now, Mr. Crump, is not that the  
6 basis of the complaint in western Canada today --  
7 a feeling that you have singled out Crow's Nest  
8 grain, but when you come to the passenger deficit  
9 which, to us, just represents minus dollars, just as  
10 much as to you the Crow rates represent minus dollars,  
11 you single out the Crow rates for aid, and then you  
12 claim the prerogative of management with regard to  
13 the passenger situation.

14 I put it to you that that is the complaint  
15 in the west, and I wonder how you are going to stop  
16 that feeling of discontent in western Canada?

17 A. I do not know, Mr. Frawley, how we  
18 are going to stop that feeling of discontent, but  
19 there is a vast difference in what you are talking  
20 about here -- the two particular instances that you  
21 took: the one of the statutory rates which are  
22 statutory and have been set by Parliament, and which  
23 we have no means of controlling; the other is a  
24 managerial problem, and if management does not solve  
25 that problem, then management will have failed and  
26 with all the implications on that, so that, to  
27 my mind, they are two completely different  
28 situations.

29 Q. Mr. Crump, this is all very interesting,  
30 but, of course, you and I will not settle it this  
morning because there is this conflicting point of







1  
2 view. But I would certainly like, and I am very  
3 glad to have the privilege of exploring it with  
4 you.

5 What is the difference between the  
6 constantly diminishing revenues from your passenger  
7 operation which is not controlled by statute and  
8 the unsatisfactory state of affairs in export grain,  
9 which is the result of statute? At the end of  
10 the year, the minus dollar position -- one is just  
as real as the other?

11 A. One is just as real as the other. I  
12 think perhaps I would agree with that, Mr. Frawley.  
13 But the real difference is this: That we can  
14 do nothing about statutory rates under our present  
15 legislation. We can do a great deal about passenger  
16 rates -- the passenger deficit, as you term it. Now,  
17 if all passenger service ceased on Canadian Pacific,  
18 then that deficit would disappear, and that is the  
end to which we are working.

19 Q. But, now, Mr. Crump, before that were  
20 done -- and I do not know how realistic you are  
21 about that -- before that were done, there would be  
22 a roar that you could hear from the Atlantic to the  
23 Pacific expressed in Parliament that this must  
be maintained in the national interest?

24 A. More controversy?

25 Q. Well, hardly controversy -- just one-  
26 way controversy -- just, say, "don't let them stop  
27 the passenger trains". Isn't that what the  
28 people would say from one end of Canada to the other?





1  
2 A. I have no means of telling what  
3 Parliament would do, but if Parliament said the  
4 passenger trains were not to stop and make it  
5 statutory -- not a mere announcement, but  
6 statutory -- then, passenger trains would not stop.

7 Q. Well, I know, but they would not  
8 have to actually make it statutory -- just a nod  
9 of the head in the right direction would be  
10 sufficient to keep passenger trains going?

11 A. I disagree with that.

12 Q. As far as you think, it would take  
13 more than a nod of the head?

14 A. I surely do.

15 Q. I would like to suggest to you that  
16 you just cannot do anything about this passenger  
17 thing -- and you were fair enough to say, just as  
18 I would expect you to, and you did not try to hedge  
19 or make out any kind of a case contrary to the one  
20 that exists when you said the other day that  
21 you could not honestly see any change in that  
22 downward trend of the passenger operation. We  
23 start with that. You have finer and better highways  
24 being built all over Canada.

25 A. I could not agree more with that,  
26 particularly the Trans-Canada highway, which is  
27 interesting to look at. You will find, if you  
28 look at the map, that from the Ontario-Quebec border --  
29 and, of course, there is no Trans-Canada highway  
30 in Quebec, or contemplated at the moment -- from the  
Ontario-Quebec border to Vancouver, British Columbia,







1  
2 with the exception of one hundred miles, is built  
3 right outside of our right-of-way fence, and  
4 not one mile -- with the exception of the one hundred  
5 miles between Thesselon and Chapleau -- not one  
6 mile of new territory is open.

7 Q. Mr. Crump, I very well remember our  
8 dear friend, George Walker, appearing before the  
9 first Turgeon Commission and expressing the views of  
10 his company with regard to what the Trans-Canada  
11 highway would probably do to the passenger revenues --  
12 and I think he did not limit it to passenger revenues --  
13 of his railway.

14 A. The revenues, I would say.

15 Q. The revenues of his railway?

16 A. Yes.

17 Q. And you have the same views, of course,  
18 entirely?

19 A. I surely do.

20 Q. That is an economic fact of life that  
21 the Canadian Pacific has to live with?

22 A. Yes. The only unfortunate part I  
23 see in that, Mr. Frawley, is that we have to live  
24 with it and our competitor does not.

25 Q. Well that, again, is another reason.  
26 But, again, I put it to you -- I may as well put  
27 it to you; there is no use of taking five minutes  
28 to do so -- why are you so shy about asking for  
29 Federal assistance there, particularly having made  
30 that statement you made a moment ago, that the  
Government of Canada in conjunction with the provinces





1  
2 have put this Trans-Canada right down along that  
3 Canadian Pacific right-of-way, all through this  
4 country. In the view of that, why cannot you  
5 say to the Government of Canada, if you want these  
6 trains to run side by side with your highway,  
7 you had better look after us, just as you have  
8 looked after us with regard to the Crow's Nest rate?

9 A. If they said we had to run those  
10 trains, that would be a different matter. But they  
11 have not said that.

12 Q. They have not said that. But you  
13 have not any more intention of suddenly cancelling  
14 The Canadian?

15 A. Oh!

16 Q. Don't cancel it before next week,  
17 because I have to get out. Don't tell me to go  
18 on C.P. railways, because they do not come down  
19 to Alberta.

20 A. That is to our regret, also.

21 Q. Well now, you do not intend to take  
22 that off soon, though?

23 A. I would prefer not to make any  
24 definite statement on that at this time.

25 Q. Oh yes. This is not the place.

26 But, as I say, as long as you feel under  
27 the compulsion -- and when I say compulsion, I mean  
28 it as a particular word, and not statutory  
29 compulsion, government compulsion, but just a great  
30 sense of duty and obligation to the people of Canada --  
as long as you do continue your passenger services,







1  
2 then I put it to you that that compulsion is just as  
3 strong and the revenue position is just as real  
4 and just as much in need of assistance as the Crow  
5 rate deficit.

6 A. Well, I do not think we can agree  
7 on that, Mr. Frawley.  
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Crump, cr-ex  
(Frawley)

4078

1  
2 Q. On page 12, Mr. Crump, you say:

3 "If recognition is not accorded railways'  
4 necessity to secure adequate revenues for the  
5 movement of export grain from Western Canada,  
6 the intensity of the railway problem will  
7 continue to increase, to the detriment of  
8 all Canadians and the shippers of all com-  
9 modities, grain included."

10 Could not you say, Mr. Crump, more appropriate-  
11 ly, if you will allow me, if the non-competitive traffic,  
12 if the hard core of the non-competitive traffic -- that  
13 is, the class rates and non-competitive commodity rates  
14 -- continues to shrink, and more and more traffic has  
15 to be carried at rates returning less than full cost,  
16 then the intensity of the railway problem will continue  
17 to increase? Isn't that just as good a way of saying  
18 what you say in that paragraph?

19 A. Well, I don't think so. I think the way  
20 I have stated it, from my viewpoint, is completely cor-  
21 rect.

22 Q. But that is what is being intensified  
23 every time that that traffic shrinks. You can see how  
24 it is shrinking by looking at the Judgment of the Board  
25 of Transport Commissioners of December 27th, 1957,  
26 because on page 28 there is an interesting table: you  
27 don't have to go to that, Mr. Crump; you have it, I  
28 was going to say, in your little black book, but I  
29 will say in your big black book, and you know how  
30 that hard core of non-competitive traffic is shrinking.

A. That is part of the intensification.







1  
2 Q. Yes, and that is a very important part  
3 of it. It doesn't please you to see that the only  
4 traffic you are absolutely one hundred per cent sure  
5 of as a place to go and get your increased costs is  
6 constantly shrinking?

7 A. No, I am not happy about that, and that is  
8 why we feel as I have said here.

9 Q. And that is where the intensity -- and  
10 we don't want to get into an exercise on semantics here  
11 -- that is what is intense, the fact you have to go  
12 every year to a smaller and smaller segment of your  
13 traffic to assuredly get your increased costs?

14 A. Well, as you say, we don't want to get  
15 into an exercise in semantics, but that intensity would  
16 increase if we had a reasonable rate on statutory grain.

17 Q. Yes, it could increase, but it certainly  
18 would not change the two things that you are really  
19 concerned about, and that is the preference of the  
20 shipper for highway transport and the preference of  
21 the traveller for either his own motor car or the  
22 aeroplane?

23 A. Well, of course, carrying that statement  
24 to the ultimate, the railways cease to exist.

25 Q. They don't cease to exist: they may cease  
26 to exist without government aid?

27 A. They must.

28 Q. All right.

29 A. If the passenger prefers air and the  
30 shipper prefers highways, then the place of the railway  
in Canada has disappeared.





1  
2 Q. All I am saying is those may be just  
3 the inexorable effect of the hard economic facts you  
4 have to live with, but I am challenging your reaching out  
5 and taking the Crow's Nest grain rate and saying, "Give  
6 us an income tax remission for this and leave the big  
7 passenger deficit, which is increasing all the time, to  
8 management"? With all respect in the world to the  
9 management of your company, which is as fine as any  
10 management in Canada, I say that is not realistic.

11 A. Well, first of all, I would like to  
12 correct one part of your statement, that the passenger  
13 deficit is not getting worse all the time; and the  
14 second one is, I again don't agree with you.

15 Q. Have you got the 1958 passenger deficit  
16 in your little black book?

17 A. No, I haven't.

18 Q. Or for 1957?

19 A. No.

20 Q. 1956?

21 A. No.

22 Q. And there is no use asking you for the  
23 1959 one?

24 A. Quite right.

25 Q. You have answered the question the way I  
26 asked it: you have not got it in your black book?

27 A. That is right.

28 Q. You may have some other books in Montreal,  
29 but not here.

30 There is another bit here on page 12, at the  
bottom of the page:







1  
2 "Canadian Pacific management is concerned  
3 with providing transportation service at the  
4 lowest possible cost and is also concerned with  
5 the equitable distribution of that cost over  
6 the various types of traffic which move on the  
7 railway."

8 Before I go to that question, may I say to the  
9 Commission that, dealing with that table on page 28 of  
10 the Decision of the Board of Transport Commissioners  
11 of December 27th, 1957, which is commonly known as the  
12 15% Case, that I gave to the secretary the figures which  
13 I obtained -- and they are readily available -- but I  
14 gave to Mr. Anderson yesterday the continuing years,  
15 1957 and 1958. The table stops at 1956, and I have  
16 given Mr. Anderson the same figures for 1957 and 1958,  
17 which I obtained from the Board, and the 1959 figures,  
18 I am informed, are not yet available and will not be  
19 available for some months.

20 I read that bit to you, the last paragraph  
21 on page 12?

22 A. Yes.

23 Q. Excuse me, there are three pieces on  
24 page 12 that I noted that I wanted to ask you about.  
25 I will come to that one in a moment. There is one  
26 a bit further up the page:

27 "The Board of Transport Commissioners has  
28 the duty of determining a general level of  
29 freight rates which is just and reasonable to  
30 both the railways and their customers. The  
Board has been seriously hampered in carrying





1  
2 out this duty by the fact that the rates on  
3 grain moving to export positions in Western  
4 Canada are removed by statute from the control  
5 of the Board."

6 How is the Board hampered, Mr. Crump? I  
7 don't quite understand the use of that word "hampered"?

8 A. Because, precisely in the manner  
9 in which your questions were directed a short  
10 time ago -- and I have to return to what you refer to  
11 as the time-worn phrase, that that largest segment of  
12 traffic is excluded from their deliberations.

13 Q. Well, if they are hampered, they would  
14 be equally hampered by the other segments, smaller but  
15 nonetheless important? I put it to you, Mr. Crump, you  
16 have to look at how the Board deals with freight rate  
17 increases. We can go to that 15% one or to the 17% one,  
18 and you are aware that the Board, when they make an  
19 Order following the finding that you need more dollars,  
20 they make a permissive authorization to you to increase  
21 freight rates?

22 A. Yes.

23 Q. And that means that you are free, within  
24 your own good managerial discretion, to apply or withhold  
25 the increases?

26 A. Well, we would not have applied for per-  
27 mission if we intended to withhold them.

28 Q. I put it to you that the only reason  
29 you have to apply for an increase is with respect to the  
30 class rates. Now, I don't mind telling you -- and I  
am sorry about that; I should have had a quick reference







1  
2 to that. I put the general proposition to you, as I  
3 understand the situation: the ceiling rates cannot  
4 be increased except by an Order of the Board, and that  
5 you understand?

6 A. Yes.

7 Q. But every rate below the ceiling, by its  
8 very nature, can be increased to the ceiling and without  
9 any offence against the Railway Act?

10 A. As I understand it,

11 Q. Yes. That being so, the only sure  
12 increase is the increase in the class rates and the  
13 non-competitive commodity rates. I put it to you that  
14 the Board is not hampered at all because -- it can't  
15 do anything about the statutory rates on grain at all,  
except comment on it from time to time ---

16 A. Which they have done.

17 Q. And others much more volubly than others;  
18 but, other than commenting on it and calling attention  
19 to an obvious fact, they just proceed to authorize you  
20 to increase the rates other than the statutory grain  
rates?

21 A. Yes.

22 Q. So, I put it to you that the Board is  
23 not bothered at all about the fact that you can't in-  
24 crease the statutory grain rates by law, and that  
25 probably you will have difficulty in increasing some  
26 of the other rates by force of economic facts? I put  
27 it to you the Board is not hampered by virtue of those  
two things?

28 A. I believe it is.  
29  
30





1  
2 Q. Well, how is it hampered in view of the  
3 fact it only grants permissive authorization? It  
4 simply says, "You may increase these rates."

5 THE CHAIRMAN: I think that is a matter of  
6 argument now. The difference between you is clearly  
7 delineated on the record and you can argue one thing  
8 and Mr. Sinclair another.

9 MR. SINCLAIR: Yes, I would certainly argue  
10 differently from the way my friend dealt with some of  
11 these matters, but not now.

12 MR. FRAWLEY: Q. I put it to you that the  
13 real frustration of the railways is not being able to  
14 increase the Crow's Nest rates, and having to face  
15 the fact that many other rates held down by competition  
16 cannot be increased either?

17 A. In the order in which you have put it,  
18 I agree with you.

19 Q. But it has to be in that order?

20 A. In my opinion.

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29  
30 ---Short recess.







1  
2 Q. Now, Mr. Crump, I can finally get to  
3 that bottom part of page 12 where you say that you  
4 are concerned with providing transportation service at  
5 the lowest possible cost and that you are concerned with  
6 the equitable distribution of that cost over the various  
7 types of traffic which move on the railway.

8 Now, Mr. Crump, I think you will have to admit  
9 that you have failed to distribute equitably -- again,  
10 through no fault of your own -- to distribute equitably  
11 that cost which is the cost of providing transportation  
12 service. I suggest that you have failed, and I will  
13 now direct your attention to one or two places in  
14 which you have failed and I will start off, you will be  
15 very glad to know, with the export grain rates. You  
16 certainly haven't been able to distribute equitably  
17 over the export grain rates the cost of providing  
18 transportation service; at least, that is what you main-  
19 tain?

20 A. I certainly maintain that.

21 Q. And I put it to you that the Canadian  
22 portion of international rates, which is a division in  
23 the case of your railway, that the Canadian portion  
24 doesn't bear increased Canadian wage costs or material  
25 costs or any other Canadian costs?

26 A. The international rates are increased as  
27 the American rates are, and as such I think bear a  
28 portion of the costs.

29 Q. I put it to you that they are increased  
30 when the ICC ordered them to be increased, and I  
wouldn't suppose that the ICC increases the rates to





1  
2 arrange for the proper payment of Canadian railway work-  
3 men?

4 MR. SINCLAIR: Mr. Chairman, this has been  
5 said more than once. My friend is not saying, I am  
6 sure, that the ICC orders the Canadian rates to be  
7 increased, the Board orders them.

8 THE CHAIRMAN: The Board adopts them.

9 MR. SINCLAIR: The Board issues the Order,  
10 the Canadian Board.

11 MR. FRAWLEY: Q. It may very well be that  
12 the Canadian Board parrots the ICC, but what I am  
13 concerned about is to examine the character of the  
14 increase by whoever authorized it. I will put it  
15 to you very specifically: you move many things, you  
16 move farm machinery from the Chicago area into Western  
17 Ontario on single factors of joint through rates, not  
18 on a combination but on what are called international  
19 rates. Well, I know that "international rate" is a  
20 broad term; they move on joint through rates?

21 A. Yes.

22 Q. Well, now, they don't move up under  
23 Canadian Board authorizations?

24 A. Well, they move up.

25 MR. SINCLAIR: Mr. Chairman, the Board's  
26 Orders in respect to this matter are on file, and my  
27 friend states to the witness that they didn't move up  
28 under the Board's authorization. Well, now, he and I  
29 can argue that.

30 THE CHAIRMAN: There will be no argument there,  
Mr. Sinclair. The point is that the Board adopts the







1  
2 increases put in by the ICC, and makes the Order accord-  
3 ingly.

4 MR. SINCLAIR: And for the reasons that have  
5 been exhaustively inquired into and stated and the fact --  
6 we may as well make this clear; it has been covered by  
7 other witnesses, they have said that they have taken  
8 their increases before and that it is demonstrable that  
9 on these rates they are equitably sharing the increased  
10 transportation costs. The Board knows that it has  
11 been into it, there have been special inquiries into  
12 this factor and it has all been gone into time without  
13 number, both with government officers and with the  
14 Board when the rates were frozen, and I just bring  
15 that to the attention of the Commission, that when the  
16 rates were frozen, notwithstanding that it was  
17 necessary to take action with respect to the inter-  
18 national factors for the reasons given.

19 MR. FRAWLEY: Q. I am not talking about  
20 the form of what happens, I am talking about the sub-  
21 stance, so I will put it to you this way: the rate on  
22 a shipment of pulp from a Quebec mill to Thorold,  
23 Ontario, would take its full share of the increased  
24 wage costs through the freight rate increase?

25 A. Yes.

26 Q. And a shipment from the same Quebec  
27 mill to Buffalo would not take any increases authorized  
28 by the Board as a result of increased Canadian wage  
29 costs?

30 A. It would have taken it at some previous  
time or some time afterwards, but as you have stated





1  
2 the problem, yes.

3 Q. It would not have taken at any time a  
4 freight rate increase due specifically and wholly to  
5 a Canadian wage increase?

6 A. I agree with that statement as it is  
7 stated.

8 Q. Now, I will put this to you, and I am not  
9 being offensive, I am sure you will understand that,  
10 but where you have signally failed in equitable distri-  
11 bution of these costs, the third one is that agreed  
12 charges do not share rateably with the class rates the  
13 burden of increased costs?

14 A. Not with the class rates, but they do  
15 contribute to the burden of increased costs.

16 Q. Don't you think that is particularly un-  
17 fair, Mr. Crump, that the shrinking class rate traffic  
18 should take one hundred per cent of the rate increase  
19 due to increased Canadian wage costs, while the ex-  
20 panding agreed charges traffic should take one and  
21 three-quarter per cent, on your own evidence in the  
22 17% case?

23 MR. SINCLAIR: That is not our evidence; that  
24 wasn't the evidence. The evidence was that that figure  
25 was there only because it reflected at that time the  
26 automatic escalator clauses and it was stated in that  
27 evidence, and my friend knows this, that renegotiations  
28 would take place and there have been traffic witnesses  
29 in that box in these proceedings who have said these  
30 renegotiations did take place.

THE CHAIRMAN: Renegotiation apart from the







1  
2 escalator clause.

3 MR. SINCLAIR: Also, that the large change  
4 in the escalator clause gave effect to that, but the  
5 one and three-quarters was explained when the witness  
6 put in the exhibit to which my friend is referring,  
7 58-22, in the 17% Case and that was only the ones that  
8 then had escalator clauses that would take effect  
9 immediately.

10 THE CHAIRMAN: You say that is attributable  
11 only to the escalator clause?

12 MR. SINCLAIR: Only to the type of escalator  
13 clause that was then on the agreed charges, and in the  
14 light of the ones that were there at the time of the  
15 contracts, this one and three quarter per cent.

16 THE CHAIRMAN: Not a modified one?

17 MR. SINCLAIR: No.

18 MR. FRAWLEY: Q. I don't want to interrupt  
19 my very interesting cross-examination of Mr. Crump by  
20 getting into an explanation about Exhibit 58-22. For-  
21 get about this exhibit which worked out the percentage  
22 of 1-3/4, and later in Exhibit 58-22 it is the estimated  
23 result of a general freight rate increase of 19 per cent.  
24 In the Canadian Pacific's own exhibit we have an item  
25 on line 5 "Agreed Charges", and the first thing done  
26 to estimate the revenue is that it is broken down into  
27 two parts, the first portion is November 1 to December 31,  
28 1958, and that is \$7.6 million, and then the second part  
29 is January 1 to December 31, 1959, and it is \$48.4  
30 million. The next column is "Increase" -- this is not  
my exhibit, it is Mr. Sinclair's exhibit -- the next

my exhibit, it is Mr. Sinclair's exhibit -- the next

million. The next column is "Increase" -- this is not

is January 1 to December 31, 1959, and it is \$48.4

1958, and that is \$7.6 million, and

two pages, the first



column "Increase, See Note". I will go across the page taking the estimated revenue yield, which is the second half of the exhibit; it is estimated revenue on one side and here is estimated revenue yield, and this is what they expect the agreed charges -- not some kind of agreed charges, but agreed charges -- that is what they expect to yield in the selected 13-month period, November 1 to December 31, 1958, \$769,000. January 1 to December 31, 1959 -- I am sorry, I was reading on line 4, and I will keep to line 5 -- November 1 to December 31, 1958, \$78,000. January 1 to December 31, 1959, \$475,000. Total, November 1958 to December 31, 1959, \$553,000.

Now, those are the dollars. The footnotes, there is a footnote opposite that and the footnote is, "Note: Estimated revenue yield as calculated by applying 19% increases to agreed charges containing escalator clauses."

Now, as I said before, it seems too bad that I shall have to stop and argue this, but to me that was the whole story which the Canadian Pacific could tell on that date with regard to the money that they expected to get.

Now, they have filed Exhibit 78, which indicates that they have renegotiated some agreed charges, and they have told us the ones that have the 21 per cent increase, that is all history, as of the date of Exhibit 58-22, but, in any event, we have exhibit 78 and I am quite content that the Commissioners should look at Exhibit 78 and put a value, put a proportionate







1  
2 value on Exhibit 78, and the power of the Canadian  
3 Pacific and the other railway to increase its agreed  
4 charges, I am simply putting it to the witness in con-  
5 trast.

6 Now, Mr. Crump, in view of Mr. Sinclair's  
7 objection, take this 1-3/4 per cent of mine, subject  
8 to everything that Mr. Sinclair said -- perhaps that  
9 is the best way to get on with the question, and I will  
10 put it to you again because I have a note of it-- isn't  
11 it particularly unfair, Mr. Crump, that the shrinking  
12 class rates traffic should take 100 per cent of the rate  
13 increase due to increased wage costs, while the corres-  
14 ponding agreed charges traffic should take 1-3/4 per  
15 cent, subject to my friend Mr. Sinclair's explanation  
16 on any such increase, what do you think about these  
17 two figures, 100 per cent and 1-3/4 per cent, or double  
18 that, if you like?

19 MR. SINCLAIR: Or six times it.

20 MR. FRAWLEY: Q. You don't six times it on  
21 Exhibit 78; that is why I will not stop and evaluate  
22 Exhibit 78, but in any event, what do you say about the  
23 shrinking class rates, taking all of the increase and  
24 the expanding agreed charges taking, well, infinitely  
25 less than 100 per cent?

26 A. I don't think it is unfair, Mr. Frawley,  
27 because the exigencies of the situation make it neces-  
28 sary.

29 Q. That is right, and I again preface that  
30 question to you that I don't point the finger at you  
and say that that is bad management, but I put it to you,





1  
2 and you will pardon again the use of language that might  
3 seem even the slightest bit colourful, but I put it to  
4 you that through no fault of your own you are making  
5 a pretty poor job of equitably distributing the cost  
6 of running the railway?

7 A. Well, Mr. Frawley, we are trying to do a  
8 job on that, but we are prevented for many reasons, as  
9 we have explored here this morning. As to the  
10 definition of unfairness, I don't see that it can be  
11 called unfair if there is no other way of doing it.

12 Q. Now, I just want to read you for the  
13 record a couple of figures, that is all, Mr. Crump, on  
14 page 29 of that 15% Case and I will not bother to do  
15 any more than just give you the two more recent figures,  
16 subsequent to 1926; it is just in support of my pro-  
17 position that there is a shrink going on in this non-  
18 competitive traffic, and I put it to you that the table --  
19 have you got a copy of that for Mr. Crump? It is  
20 page 28 of the 15% Case.

21 You see from the figures that the Board uses,  
22 going on on page 29, and I will not bother reading that  
23 to you, I just want to give you the figures, they  
24 calculated from 1956 the traffic left, as they say, the  
25 traffic left for consideration by way of increased  
26 freight rates. You would have to go to page 29 for  
27 that, Mr. Crump, and you will see there in that first  
28 paragraph they make a short calculation and they come  
29 up with a figure of 57.5 per cent of Canadian  
30 traffic left for consideration by way of increased  
freight rates, and I just want to give you the ones







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similar to 57.5 -- this is 1956.

MR. SINCLAIR: I have that written in on  
my book.

MR. FRAWLEY: Well, 1957.

MR. SINCLAIR: Just a minute. I have them  
all written out. It is the ones which I have written  
in in red. I don't know if they are the same as Mr.  
Frawley's.

MR. FRAWLEY: It is 57.5 for 1956.

MR. SINCLAIR: Just let him check them.

(Page 4097 follows)





1  
2 Q. Well, that is the Board's own figure,  
3 57.5 in 1956. In 1957, my calculations show that  
4 it is 57.3, just very slightly down.

5 Do you see how that is calculated? I will  
6 tell you how I calculated it, Mr. Crump. You take  
7 the Crow rates, 9.9 million, competitive and agreed  
8 charges put together, 32.8 million, and that totals  
9 42.7 million.

10 A. Oh, yes.

11 Q. And then you have a balance of 57.3.  
12 You are only down a few decimal points from 1957  
13 to 1956.

14 Then you go to 1958, and it is a little  
15 more serious. I come up with a calculation of what  
16 is left comparable to the 57.5 in 1956. I come up  
17 to 52.6 for 1958, and that would conform, perhaps,  
18 with your general understanding of it?

19 A. It would.

20 Q. Now, passing on to another page -- page  
21 13 of your precis. The bottom of the second paragraph,  
22 part of the last sentence there:

23 "...the largest single problem the  
24 railways have arises from the distortion  
25 in the freight rate structure caused by  
26 the statutory grain rates."

27 Mr. Crump, if you got back on the rails  
28 every ton that was lost to the trucks in the last  
29 15 years, you wouldn't need, purely revenue-wise,  
30 and putting aside the psychology of it, you would not







1  
2 need a cent more from export grain?

3 A. Well, bearing in mind today's costs  
4 of moving the traffic, I think it is the largest  
5 distortion we have.

6 Q. If you got back -- just think of all  
7 of the traffic you have lost; think of the way in  
8 which the highway transport has expanded in this  
9 country in the last fifteen years. Somebody threw  
10 in a figure of -- I don't know where that was -- of  
11 \$200 millions that had been lost. It is in the  
12 Turgeon Report. The Turgeon Report had a figure  
13 that said that the railways had lost \$200 million  
14 of traffic to the trucks in ten years, I think?

15 MR. SINCLAIR: Whatever the figure is .

16 MR. FRAWLEY: Q. Well, it is a large figure?

17 A. It is a large figure.

18 Q. It is a large figure. Well, it is  
19 so large that, as I say -- I put it to you that it  
20 is a highly imaginative sort of thing, Mr. Crump, but  
21 I am just trying to put things in their proper  
22 perspective; your problems -- if you got back on the  
23 rails every ton that you lost, that your revenue  
24 position would be such that you would not -- you  
25 might still like to get more for your grain, but  
26 you would not be driven to the same point you are  
27 now to get more for your grain.

28 A. I would say, in answer to that, Mr.  
29 Frawley, that we would not be driven to the same point.  
30 I agree with that. But our costs have increased to  
the extent that the hauling of grain at the statutory





1  
2 rates would still be the burden it is today, and had  
3 we not driven some of the traffic from the railway  
4 to those motor trucks by being unable to increase  
5 the statutory rates we would not be in the position  
6 we are today.

7 Q. I appreciate your line of reasoning  
8 there -- that one thing leads to another. But the  
9 fact is that however it came about, and a great deal  
10 came about purely by shipper's preference, Mr. Crump?

11 A. Well, certainly. The shipper is the  
12 master of his own destiny and can ship the way he  
13 feels he wishes to ship.

14 Q. You know there is lots of traffic  
15 moving on the highways today where the shipper pays  
16 the same rate in hundreds of points from origin  
17 to destination as is charged on the rails?

18 A. Yes. There is a service factor.

19 Q. Yes. As a matter of fact, it is  
20 so apparent and so real and present in your mind that  
21 is why you spent whatever number of millions you  
22 spent to take over Smith Transport?

23 A. Surely.

24 Q. Again, looking at passengers -- if  
25 private motor cars and air lines had not siphoned  
26 off a good deal of your passenger runs, your revenue  
27 problem from export grain would be perhaps neutralized?

28 A. I do not think so. That is a matter  
29 of degree that you are speaking of now, and certainly  
30 the private motor car has siphoned off our  
passenger business. But I do not think that offsets







1  
2 the loss in the movement of export grain.

3 Q. Again, I come back to the dollar  
4 position at the end of the year. Suppose that your  
5 grain deficit in 1958 -- and it is there in that  
6 vast forest of material that Mr. Stenason filed --  
7 suppose it is the \$35,000,000 -- I do not know what  
8 your passenger deficit is, but suppose it was  
9 \$35,000,000. Well, then, as a matter of simple  
10 arithmetic the one would neutralize the other, and  
11 if you did not have that passenger deficit -- if  
12 that was profitable to the extent of \$35,000,000  
13 instead of a loss to the extent of \$35,000,000 --  
14 then your grain loss would be neutralized by your  
15 passenger profit?

16 A. Well, I prefer to put it the other  
17 way -- that our situation would be better.

18 Q. Now, I put this to you -- increasing  
19 the export grain rates. I know you are not  
20 increasing the export grain rates, but increasing the  
21 revenue from export grain is not going to affect the  
22 fact that from the point of view of several thousands  
23 of shippers, profitable, good paying traffic, are  
24 going to prefer highway transport?

25 A. As you have stated it, I think I would  
26 agree with you.

27 Q. And, again, -- I anticipated my  
28 notes a little -- I put it to you that your own  
29 actions bear out the validity of what I am putting  
30 to you, that you would not have taken over Smith  
31 Transport if you thought transport was on the wane?





1  
2 A. I have no feeling that transport  
3 is on the wain, nor will it be.

4 Q. Crow's Nest grain rates is not going  
5 to change the thinking of those hundreds of people  
6 who are always in a hurry and patronize airlines  
7 in preference to your fine passenger trains?

8 A. Well, those people who are in a hurry  
9 will continue to patronize airlines regardless of  
10 anything else.

11 Q. And it is because you were pretty sure  
12 of that that you created Canadian Pacific Airlines,  
13 and you would not have done that if you thought  
14 air travel was not going to expand?

15 A. No. I cannot resist the temptation  
16 to say to the Commission here that I got a little  
17 tired of seeing our Trans-continental rail passengers  
18 leave us and go on to the competition; and, by  
19 competition, I mean the other airlines, of course.

20 Q. And those people that did that and  
21 that continued to do it -- they would not know  
22 export grain from a Chinese laundry ticket?

23 A. I am quite sure of that.

24 Q. And increasing export grain revenue is  
25 not going to circumvent the advantages of the St.  
26 Lawrence Seaway which, I put it to you, serves  
27 your competition, transport, at least which you  
28 protested were too low?

29 A. Would you repeat that again?

30 Q. I say that increasing export grain  
revenue is not going to circumvent the advantages







1  
2 or destroy the advantages of the St. Lawrence Seaway?

3 A. Oh, I am well aware of that.

4 Q. Because the St. Lawrence Seaway --  
5 you have, and rightly so, if I may say so, some views  
6 about low tolls on the St. Lawrence Seaway.

7 A. I have.

8 Q. You do not think too much of those?

9 A. I do not.

10 Q. You think a lot about them, but not  
11 too much!

12 A. Well, I think a lot about them but, I,  
13 of course, feel that the tolls are not sufficiently  
14 high.

15 Q. And the Railway Association of Canada  
16 sent people to protest to the Committee when they  
17 were fixing those tolls?

18 A. That is right.

19 Q. And from your standpoint, very properly,  
20 you feel that here is our competition being serviced  
21 at rates that are just too low.

22 A. I have that feeling in regard to a  
23 great deal of our competition.

24 Q. Have you any package boats that will  
25 traverse the St. Lawrence Seaway?

26 A. We have.

27 Q. There again, that is just like Smith  
28 Transport and Canadian Pacific Airlines -- if you  
29 cannot beat them you are going to join them?

30 A. We intend to see what is happening  
there. We have four small ships operating in the





1  
2 St. Lawrence Seaway.

3 Q. I suggest to you the largest single  
4 problem of the Canadian Pacific Railway is all  
5 wrapped up in that one ugly word "competition"?

6 A. It is a very, very serious problem.

7 Q. Competition forces you to operate  
8 passenger trains at a loss?

9 A. I do not agree with that.

10 Q. Well, you were operating and you are  
11 operating them at a loss, and good traffic has been  
12 siphoned off by the private motor car and airline?

13 A. Yes, but we are not forced to do it.  
14 That is within the limits of what the Board will allow  
15 us to do.

16 Q. Mr. Crump, you are not entirely  
17 ruthless about it. You continued passenger trains  
18 for a long time after your statisticians and your  
19 brain trusts told you it should be off?

20 A. Oh, but they are coming off, and  
21 we have been working on that for some years.

22 Q. But after you have them all off, there  
23 will be a point where you, as President of the  
24 Canadian Pacific Railway, will say, "Thus far and  
25 no further. Now, those lines have to be continued  
26 in the national interest"?

27 A. I will not say that. I will say at  
28 the moment I think there will be sections in Canada  
29 where passenger trains will be operated profitably,  
30 and that is where the C.P.R. will operate them.

Q. And in the meantime, though, until







1  
2 that happy day comes -- and you cannot point to the  
3 calendar when that day is going to come ---

4 A. Not with definite assurance.

5 Q. And until that day comes, you are  
6 quite content to have this passenger deficit carried  
7 by the rest of the rate structure?

8 A. I am not content, but I see no other  
9 course.

10 Q. And again, competition -- this thing  
11 that I put it to you is your largest single problem --  
12 competition forces you to bear down on your  
13 competitive rates and seek your overhead cost from  
14 a shrinking volume of non-competitive traffic?

15 A. We seek our overhead cost wherever  
16 we can get them.  
17  
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1  
2 Q. And competition pretty well tells you  
3 where you have to get them?

4 A. To a degree.

5 Q. Now, on page 15, Mr. Crump, you say,  
6 at the bottom of the page:

7 " . . . the Canadian farmer cannot, without  
8 hardship, pay out of the sale price of grain  
9 a just and reasonable rate for moving grain  
10 and grain products to export positions."

11 Again on page 16, if you don't mind we  
12 will discuss the two bits together, the first full  
13 paragraph:

14 "It is clear that inadequate revenue  
15 from the movement of the Western Canadian  
16 grain crop to export positions is contrary  
17 to the public interest."

18 Now, because of those two statements, I  
19 think it is fair to say that those phrases, the passenger  
20 deficit, the agreed charges can't take an increase or  
21 substantial increase, the competitive rates can't  
22 take a reliable increase, and the grain rates, and I  
23 put it to you from the standpoint of equitable distri-  
24 bution of increased costs they are pretty much in the  
25 same boat and all of them through no fault of your own?

26 A. Yes. The degree of that inequity, of  
27 course, is the factor that concerns us most.

28 Q. And perhaps for those reasons you seek  
29 federal assistance to bring the grain rates to a just  
30 and reasonable level?

A. Yes.







1  
2 Q. When I say a just and reasonable level,  
3 you will not take that as any admission to mean that  
4 what you are ---

5 A. I wish I could, but I won't.

6 Q. And that happens to be -- it didn't just  
7 happen, it is -- 100 per cent increase for fully dis-  
8 tributed costs?

9 A. That is right.

10 Q. And you also want that federal aid to  
11 remove this transgression of the public interest which  
12 you say is involved?

13 A. It would help.

14 Q. It would more or less follow it would  
15 not be contrary to the public interest, if the  
16 revenues were adequate it would not be contrary to the  
17 public interest?

18 A. Yes, I agree with that.

19 Q. It is only the English I am commenting  
20 on. If it was adequate, then the public interest,  
21 I would assume, would be satisfied?

22 A. I would agree with that.

23 Q. On that basis, let's look at some other  
24 rates. Let us look at the gentleman who is exporting  
25 grain from Port Colborne to Halifax at a rate which  
26 returns you .655 cents per ton mile.

27 MR. SINCLAIR: He should have put the ques-  
28 tion to Mr. Donald Gordon. We have said this before.  
29 Canadian Pacific does not carry grain from Port  
30 Colborne to Halifax.

MR. FRAWLEY: I don't know whether you carry





1  
2 a pound of it.

3 MR. SINCLAIR: Well, the answer is we don't.

4 MR. FRAWLEY: Q. Are you quite content  
5 about the fact that you don't carry any grain from the  
6 lake ports to Halifax?

7 A. We do not carry any because we haven't  
8 a connection into Halifax.

9 Q. The D.A.R. goes into Halifax?

10 A. Yes, but across the Bay of Fundy.

11 Q. In any event, this Commission is faced  
12 with the fact that Canadian National takes it from  
13 Port Colborne to Halifax at a rate which returns .655  
14 cents per ton mile. Now, I must not pursue that with  
15 you.

16 I call your attention to the fact that an  
17 exporter of coal and coke does so at a rate which re-  
18 turns .545 cents per ton mile. Do you think that  
19 was a rate which returned full costs?

20 A. I wouldn't know.

21 Q. Now, again, Mr. Crump, leaving those two  
22 Canadian National rates to one side, don't you think  
23 that inadequate revenue from passenger traffic is  
24 contrary to the public interest?

25 A. The public has a choice, and they are  
26 exercising it, and that is why the change is taking  
27 place in rail passenger traffic, which I presume is what  
28 you are referring to.

29 Q. I put it to you just another way: why  
30 shouldn't you get full costs from your passenger move-  
ments? Why should you be operating passenger movement







1  
2 without full costs?

3 A. Because the prospective customer prefers  
4 to spend his money on another form of transport.

5 Q. Now, would you turn to page 17, Mr. Crump?  
6 On page 17, at the bottom of the page, you say:

7 "The solution referred to previously is  
8 basically that assistance to the Western grain  
9 growers of 50 per cent of a just and reasonable  
10 rate would be provided by the people of Canada."  
11 I mean no offence, Mr. Crump, but don't you think that  
12 you should let the grain growing industry of Canada  
13 seek any assistance they need from the federal treasury  
14 or elsewhere?

14 A. To pay a just and reasonable rate?

15 Q. As they see it.

16 A. Well, again, perhaps we should put it  
17 over into the discussion we were having about carrier,  
18 that if we were not a common carrier and we felt that  
19 this grain was not being carried at a just and reasonable  
20 rate which returned our cost, then we wouldn't accept  
21 it. The trucker doesn't accept it.

21 Q. If you put the rates up high enough you  
22 will find some truckers accepting it?

23 A. Yes, but the rates would have to go up  
24 many, many times more than they are today before that  
25 happens.

26 Q. I am told that livestock is hauled down  
27 from Alberta into Ontario. How did you let that  
28 business get onto the highway?

29 A. There have been some experimental runs  
30





1  
2 of that type.

3 Q. Probably what engenders a little timidity  
4 in the western grain grower thinking he doesn't need  
5 assistance is in looking at those large passenger deficits,  
6 which have been publicized, you know, that perhaps colours  
7 his point of view and keeps him away from even thinking  
8 that there is anything wrong with his traffic when you  
9 are losing such a large amount of money on your pas-  
10 senger traffic?

11 A. Well, I have never known the western  
12 grain farmer to be timid of his view on those matters.

13 Q. And when he looks, perhaps, closer to  
14 home, when he knows you are carrying grain beyond the  
15 lakehead -- you don't carry grain even from Port Arthur  
16 to Halifax?

17 A. No.

18 Q. It is certainly too bad you are shut out  
19 of Halifax so much.

20 A. They made very sure of that.

21 Q. Do you haul into Saint John?

22 A. Yes.

23 Q. Do you haul it from Port Arthur to Saint  
24 John?

25 A. There is some movement. Principally the  
26 movement is from the Bay ports to Saint John.

27 Q. And from the lake ports, too?

28 A. To a much less degree.

29 Q. I put it to you that you don't get, Mr.  
30 Crump, much more for what you haul from Port Arthur or  
31 Fort William to Saint John than you get from hauling







1  
2 it from Regina to Port Arthur or Fort William?

3 A. The rates are somewhat low because they  
4 are in relation to the American ports; they are related  
5 rates, and certainly we have felt that it was desirable  
6 to keep the Maritime ports open.

7 Q. In the national interest?

8 A. In our interest, because of the two-way  
9 trade.

10 Q. You have perfectly acceptable and proper  
11 reasons to which I take not the slightest exception; you  
12 are hauling it from the lakehead on to the seaports at  
13 rates which are comparable to the rates you get from  
14 the country elevators to the lakehead?

15 MR. SINCLAIR: This was all discussed in extenso  
16 with traffic witnesses, and the Commission was told and  
17 Mr. Frawley was told that these rates were being looked  
18 at, and the revenue per ton mile on Canadian Pacific was  
19 put on the record, and I really do not think, with all  
20 due respect to my friend's question, that the President  
21 can be expected to be able to give all the answers and  
22 with the details in these fine rate matters that my  
23 friend is asking him to do.

24 MR. FRAWLEY: This most excellent President  
25 knows a great deal about the railway.

26 MR. SINCLAIR: He is not expected to know the  
27 rates per ton mile from that place to this place.

28 MR. FRAWLEY: Of course, I reject completely  
29 my friend's suggestion that it has been dealt with.  
30 It hasn't been dealt with between the Province of  
Alberta and the President of the Canadian Pacific Railway.





1  
2 I am only discussing it in the broad principle.

3 MR. SINCLAIR: Put to him what Mr. Edsforth  
4 said and ask the president if he agrees or disagrees  
5 with Mr. Edsforth.

6 THE CHAIRMAN: I think, Mr. Frawley, Mr.  
7 Crump and you are getting along very well.

8 MR. FRAWLEY: Q. Now, Mr. Crump, at page 19  
9 you have a statement ---

10 MR. SINCLAIR: I would like to say this also,  
11 Mr. Chairman, that the traffic he is talking about is,  
12 according to the evidence, \$1.5 million in revenue, and  
13 we are dealing here with grain traffic that is \$35  
14 million. \$1.5 million is the Canadian Pacific  
15 revenue from bay port traffic to Saint John.

16 MR. FRAWLEY: Q. You say on page 19 ---

17 THE CHAIRMAN: That is not in evidence, that  
18 is your statement.

19 MR. SINCLAIR: Oh, yes, it is in evidence.

20 MR. FRAWLEY: Frankly, I don't want to  
21 interrupt my few remaining questions of Mr. Crump and  
22 argue with him.

23 Q. Mr. Crump, you say at page 19:

24 "The proposed freight rate assistance for  
25 western grain growers is not and must not  
26 appear to be a subsidy to the railways."

27 Now, Mr. Crump, I have been concerned about -- I found  
28 it a little difficult to understand why you seem to  
29 dislike that this should be called a subsidy to the  
30 railways. I put it to you that you will be getting  
this assistance to enable you to carry out your contract







1  
2 of 1897, and why would that not be a proper matter for  
3 subsidy? If you find that the present conditions have  
4 become unbearable, why should you not go and ask for  
5 relief from that contract because the situation now  
6 has reached the stage where something of that sort  
7 must be done, and in that case you would be calling it  
8 a subsidy, and what would be wrong with calling it a  
9 subsidy to the railways?

10 A. In my opinion it is not a subsidy to the  
11 railways because we are asking for an amount to cover  
12 our costs, a just and reasonable amount to cover our  
13 costs. If, as I stated a moment ago, we did not  
14 have those common carrier obligations and refused to  
15 accept grain, then I would say the situation would be  
16 fair. But for that reason I feel it is not a subsidy  
17 to the railways but is a subsidy to help the western  
18 grain grower -- and we know all the factors surrounding  
19 that, Mr. Frawley -- to help him get his products to  
20 export position, and I cannot see that this is a subsidy  
21 to railways. It is a subsidy to the shipper.

22 Q. First of all, I want to take up with  
23 you for a moment this point. You say if you did not  
24 have these carrier obligations. It is completely in-  
25 conceivable that Canadian Pacific would ever refuse  
26 to carry the grain?

27 MR. SINCLAIR: It can't refuse because there  
28 are specific provisions in the law in regard to grain.

29 MR. FRAWLEY: Mr. Crump said if they were  
30 not there.

(Page 4115 follows)





1  
2 MR. SINCLAIR: It doesn't turn on common  
3 carrier obligation, as the lawyers here know; it  
4 turns on other things.

5 MR. FRAWLEY: Q. Mr. Crump, if there was  
6 nothing in the law at all, just the history, the  
7 history of the Canadian Pacific Railway in western  
8 Canada since 1881, and that is all we have, you would  
9 never refuse to carry the grain of those farmers?

10 A. It would depend upon what point we  
11 were driven to.

12 Q. Mr. Crump, the Canadian Pacific Railway  
13 and western Canada are just synonymous; it is like  
14 love and marriage, or whatever things are synonymous.

15 A. I think that after all one must remain  
16 in business.

17 Q. I know, but never mind about Canadian  
18 National; that just came out of nowhere and with  
19 a collection of bankrupt companies in western Canada,  
20 but Canadian Pacific is western Canada.

21 A. I like to feel so.

22 Q. You don't need the compulsion of a law  
23 that your counsel is talking about to require you  
24 to stand by the farmers and carry their grain forever  
25 and ever.

26 A. You are going back to your question;  
27 that was part of my answer to your question.

28 Q. I put it to you that you made a contract  
29 with the Government of Canada that you would carry  
30 this grain at 1897 rates, and now you say that you  
can't go on carrying it at those rates because you







1  
2 say it has gotten so badly out of balance; the  
3 costs have gone up and the rates still stay there, so  
4 I think it is a proper matter for you to give us  
5 relief from this matter in the form of a subsidy.

6 MR. SINCLAIR: I hope that my friend doesn't  
7 want us to argue that point that is involved in  
8 that question, because again it is a legal point that  
9 we have agreed on.

10 THE CHAIRMAN: It is a question as to whether  
11 the agreement ---

12 MR. FRAWLEY: If that is the question, I  
13 notice that my friend Mr. Sinclair raised it, not  
14 the witness.

15 MR. SINCLAIR: Why should the witness raise  
16 it, because it is raised in the material filed on  
17 behalf of the company, and he has told the Commission  
18 a number of times what his position is. I don't know  
19 what my friend thinks, that the witness is going to  
20 change what he said by keeping on asking him the  
21 question over and over again? Of course he is not.

22 MR. FRAWLEY: Q. Subsection (6) of  
23 section 328 of the Railway Act says:

24 "(6) Notwithstanding anything in subsection  
25 (5), rates on grain and flour shall, on  
26 and from the 27th day of June, 1925,  
27 be governed by the provisions of the  
28 agreement made pursuant to chapter 5  
29 of the Statutes of Canada 1897, but  
30 such rates shall apply to all such





1  
2 traffic moving from all points on  
3 lines of railway west of Fort William  
4 to Fort William or Port Arthur over  
5 all lines now or hereafter constructed  
6 by any company subject to the jurisdiction  
7 of Parliament."

8 THE CHAIRMAN: Rightly or wrongly, as you  
9 know, it is a question of law which is involved and  
10 not a question of interpretation, and I am sure that  
11 will be argued later on.

12 MR. SINCLAIR: Certainly. The reference  
13 to the agreement of 1897 in what section is descriptive  
14 of the level of the rate and isn't the application  
15 of the rate to the traffic.

16 THE CHAIRMAN: That is what you say.

17 MR. FRAWLEY: I certainly agree that I am  
18 not going to make any progress at all.

19 Q. Would you now turn to page 19, Mr.  
20 Crump, and I am just about finished. It says,:

21 "The specific proposal of Canadian  
22 Pacific as to the method of payment  
23 of the assistance to the western  
24 grain growing industry is one related  
25 to income tax."

26 I am sure you have advanced this idea of  
27 the assistance by way of an income tax remission,  
28 or relief of some kind, that that was made in all  
29 sincerity, I am sure of that, but wouldn't that  
30







1  
2 income tax idea of yours send a flood of would-be  
3 imitators to the Minister of Finance? Did you  
4 think of that?

5 A. I don't think so.

6 Q. Wouldn't every industry that has a  
7 cost versus revenue problem protest that he shouldn't  
8 have to pay his full taxes when the Canadian Pacific,  
9 because of a cost revenue problem, gets a tax  
remission of \$30,000,000 or \$35,000,000 a year.

10 A. Well, that has to be set in its  
11 proper perspective, I think, and as I have outlined  
12 here and for the reasons that I have outlined here,  
13 I think this method would provide a solution to our  
14 problem.

15 Q. It occurs to me that the textile  
16 manufacturers who think they are having a hard time  
17 because of what they think are the inadequacies of  
18 the protecting tariff lines, I would think that  
19 those textile manufacturers would think that this  
20 Canadian Pacific idea was a good way to get relief  
from Japanese imports.

21 A. Well, returning to the discussion  
22 between you and Mr. Sinclair a moment ago, the  
23 textile industry is not required by law to keep  
24 making textiles.

25 Q. But sometimes there is a compulsion  
26 that exists outside of the law; you have the  
27 compulsion of a large investment, you have the  
28 compulsion of a large body of perfectly respectable  
29 shareholders that expect some return on their  
30





1  
2 investments.

3 A. I don't deny for a moment that they  
4 are financing within the profit and loss system of  
5 their economy.

6 Q. I am only suggesting that perhaps,  
7 you see, if you simply call it a subsidy, you would  
8 perhaps get rid of that, but I suppose all we can  
9 say about that is that that is the best suggestion  
10 you can make and you are willing to see that happen.

11 A. I think it is a good suggestion.

12 Q. Now, Mr. Crump, you told Mr. Brian  
13 Dickson of Winnipeg the other day - I didn't look  
14 it up - but you said that the value of service was  
15 being narrowed. Perhaps it would be better to have  
16 it; that is a little loose.

17 MR. SINCLAIR: That is all right, that is  
18 close enough.

19 MR. FRAWLEY: Is that close enough?

20 MR. SINCLAIR: The range in which it can  
21 be applied.

22 MR. FRAWLEY: Q. Mr. Crump, it is a  
23 fact, of course, that where you are applying it  
24 you are applying it 100 per cent.

25 A. As I said a moment ago, Mr. Frawley,  
26 I see no other recourse.

27 Q. When you make agricultural machinery  
28 coming into Canada from the U.S. border pay full  
29 class rates to the western Canadian destination,  
30 you are certainly using the value of service  
principle 100 per cent.







1  
2 A. I would think so.

3 Q. And then, when you set down in the  
4 same context the fact that you move machinery from  
5 that same factory in the Chicago area to London,  
6 Ontario, that single factor, joint through rates,  
7 are certainly not class rates and does not the  
8 imbalance become pretty apparent?

9 A. Forced by circumstances, there may be  
10 some imbalance.

11 MR. FRAWLEY: I am very much obliged to you;  
12 Mr. Crump, thank you.

13 MR. SINCLAIR: I will be very short in  
14 re-examination, but first perhaps the Commission  
15 has some questions to put to Mr. Crump.

16 THE WITNESS: I will be glad to come back.

17 THE CHAIRMAN: Let us see if we cannot  
18 get him away. Mr. Mann?

19 COMMISSIONER MANN: I possibly have one or  
20 two questions. Looking at the western grain  
21 distributing facilities, do you think that there is  
22 scope for rationalization of the western grain  
23 gathering process?

24 THE WITNESS: May I ask a little more in  
25 detail exactly what you mean by rationalization of  
26 the western grain gathering process?

27 COMMISSIONER MANN: Achieving of greater  
28 efficiency, perhaps; the bringing of grain from the  
29 farmer to the larger units of storage, and so on?

30 THE WITNESS: It seems to be, Commissioner  
Mann, that I saw an article in the paper a day or two





ago where the head of the research department of Canadian National had spoken on that. I think that there is to a degree a rationalization going on all the time. Of course, Dr. Solandt spoke of the ideal as commencing of now. Now, we have a large plant out there and grain gathering is basic to that plant, it being some 40 per cent in western Canada, and I am speaking of the Canadian Pacific now.

As time goes on that plant will change, will become rationalized, but I suggest that to do it now it is beyond our means in this country because it would mean a complete revision of the grain storage facilities internally in western Canada, and to replace all of the line elevators in western Canada now with new and larger capacity elevators at today's replacement costs would be a tremendous problem, and for that reason I think that that rationalization is going to be worked out over the years; it will take place but it will take place within a number of years in a sane and business-like manner.

COMMISSIONER MANN: To that extent, Mr. Crump, you probably will expect a return of your costs in western Canada?

A. There will, over that period of years, come a reduction in our costs.

COMMISSIONER MANN: I have one more question. From your précis and from what you have told us, you are concerned - lest there be any misunderstanding - with what you seek, which is a subsidy to the







1  
2 railway; you want to be sure that everyone knows  
3 that that subsidy that you seek is a subsidy to the  
4 western grain industry.

5 Now, my question is this; will there be  
6 an uncertainty left in the system which you propose,  
7 and would it be possible to avoid this uncertainty,  
8 this controversy, if it were possible to work out  
9 an assistance, if assistance is needed, to the western  
10 farmer which could be paid directly to the western  
11 farmer?

12 THE WITNESS: I would prefer to see that  
13 done, Mr. Mann; I would prefer to see the assistance  
14 paid to the farmer and then our rate would be  
15 adjusted as we have recommended here in accordance  
16 with our cost. I would much prefer to see that,  
17 but the only reason I have advanced the proposal  
18 that I have, is that it seems to me to be an  
19 extremely cumbersome method and would of itself  
20 entail a large cost of distribution, and I thought  
21 that this was a cheaper and better way of handling  
22 it.

23 COMMISSIONER MANN: Thank you very much.

24 THE CHAIRMAN: Mr. Sinclair?

25 RE-DIRECT EXAMINATION BY MR. SINCLAIR:

26 Q. Mr. Crump, when Mr. Dickson was  
27 cross-examining you yesterday, and I am looking at  
28 the transcript, Volume 27, page 3930, he said,  
29

30 "Turning to the top of page 3, you





1  
2 indicate that the net investment of  
3 Canadian Pacific in its rail transportation  
4 system has grown from \$950 million at  
5 the end of 1946 to \$1,440 million at  
6 the end of 1958."

7 That is an increase of, it says, \$498 million. Now,  
8 that is a mistake; it is \$490 million, I am sure  
9 I heard Mr. Dickson say \$490 million.

10 Mr. Dickson continuing, said,

11 "To what extent was this provided by  
12 the introduction of outside capital,  
13 and to what extent was this provided  
14 from retained earnings?

15 MR. SINCLAIR: That is source and  
16 application of funds that you are  
17 asking.

18 MR. DICKSON: Yes.

19 Q. Have you study on the source and  
20 application of funds?

21 A. I have some figures here. In  
22 that period, 1947 to 1958, the  
23 borrowings amounted to \$128 million.

24 Q. And the balance came from retained  
25 earnings?

26 A. Retained earnings within the  
27 company."

28 Now, I thought, Mr. Chairman and members  
29 of the Commission, that I should ask Mr. Crump in view  
30







1  
2 of the figures he started to deal with, and then  
3 was moved off them by an answer, whether he would  
4 want to expand that in any way.

5 A. Well, last night when we had this  
6 transcript I noticed that that was not clear, and  
7 my officers prepared a short memo which I would  
8 like to read into the record covering this source  
9 of funds, because I think it is important.

10 Q. A copy of this has been handed in  
11 this morning.

12 A. Figures of \$950 million at the end of  
13 1946 and \$1,440 million at the end of 1958, as shown  
14 on page 3 of precis, are for net investment in rail  
15 property, i.e. after deduction of depreciation  
16 reserve.

17 During the year 1947 through 1948 gross  
18 capital expenditures on rail property were \$866.2  
19 million.

20 The source of funds to meet rail capital  
21 expenditures of \$866.2 million was as follows:

Depreciation	\$ 412.5 million
Salvage	46.6 "
Tax equalization reserve	25.8 "
Net earnings from rail after fixed charges and dividends (A deficit)	<u>(20.8) "</u>
Total funds from rail	\$ 464.1 "

25  
26 Now, the borrowings which I gave Mr. Dickson  
27 as amounting \$128 million at line 15, should be  
28 \$128.7 million, and the non-rail contributions which  
29 I gave Mr. Dickson, \$273.4 million, for a total of  
30





1  
2 \$866.2 million. Now, the net reinvested earnings  
3 rail and non-rail amount to \$252.6 million.

4 Q. That would be the non-rail contribution  
5 that you have just mentioned of \$273.4 million less  
6 the deficit arising in the period of the twelve  
7 years you are dealing with, a deficit of 20.8  
8 million; that is 273.4 minus 20.8, which is 252.6.

9 A. That is right.

10 Q. Now again Mr. Dickson during his  
11 cross-examination, Volume 27 at page 3932, in  
12 dealing with working capital and he asked you, taking  
13 your annual report, to quote certain figures, and  
14 he was dealing with those as an excess of current  
15 assests over current liabilities, and he arrived  
16 at a figure which is shown at lines 12 and 13, as  
17 follows:

18 "Though your working capital position  
19 has improved during 1958 to the extent  
20 of \$13,300,000 odd dollars."

21 That is what it says in the transcript, but it is  
22 \$18,300,000, and again I think the reporter didn't  
23 pick that up. I have checked that.

24 Earlier on that page you said that in your  
25 view the working capital in 1958 had increased over  
26 1957, and in the light of those figures that Mr.  
27 Dickson gave you taken off the balance sheet, you  
28 agreed with his position that there was an increase.

29 Now, have you looked at the reports, and  
30 what have you to say to the Commission in the light of







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1  
2 the two answers on that page; one where you said it  
3 went down and the other one where you said it went  
4 up?

5  
6  
7  
8 (Page 4125 follows)  
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10  
11  
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1  
2 A. Well, of course, the increase in working  
3 capital as shown on page 4 of our annual report, or  
4 in greater detail on page 32, does show an increase  
5 of \$18,256,000. Actually, the working capital  
6 decreased between 1957 and 1958 except for the financing  
7 we did in 1958 when we issued \$40 million of collateral  
8 trust bonds and \$20 million of equipment issues. That  
9 amount of \$60 million is noted in the additions to  
10 working capital on page 32.

11 Q. If I may move on, would, in 1958, the  
12 amount of \$60 million covered by that borrowings all  
13 have been spent and moved up into the property accounts  
14 of the company?

15 A. A portion of it would. The equipment  
16 issue, of course, is spent immediately for equipment,  
17 but not the collateral trust issue.

18 Q. Of \$40 million?

19 A. Of \$40 million.

20 Q. And if you had not made that \$40 million  
21 loan, what would have been the effect in 1958 on your  
22 working capital?

23 A. Well, we would have had a decrease in  
24 working capital.

25 Q. Approximately how much?

26 A. About \$21.7 million.

27 Q. I now wish to turn to a point in Volume  
28 27, page 4039, during the cross-examination by Mr.  
29 Doherty.

30 THE CHAIRMAN: Well, Mr. Sinclair, I think  
we had better adjourn now until two o'clock.

---Luncheon adjournment.







1  
2 ---On resuming at 2:00 p.m.

3 THE CHAIRMAN: All right, Mr. Sinclair.

4 RE-EXAMINATION BY MR. SINCLAIR, resumed:

5 Q. Just before the noon adjournment, Mr.  
6 Crump, I had asked you, I think, to turn to volume  
7 27, page 4039, and during the cross-examination of  
8 Mr. Doherty, he is dealing with the question of the  
9 equitable distribution of transportation costs over  
10 the various types of traffic. That is set out at the  
11 bottom of p.12. There were a number of questions  
12 arising from the same part of your evidence put to  
13 you this morning by Mr. Frawley. I refer specifically  
14 to Mr. Doherty's question at page 4039 which was:

15 "Q. The point concerning me, Mr. Crump,  
16 is the principle of equitable distribution  
17 of that cost. Then, you would say this  
18 principle cannot apply insofar as Crow's  
19 Nest rates are concerned?

20 A. It is not being applied to Crow's  
21 Nest rates, no."

22 My question, Mr. Crump, is this. When  
23 you gave that answer, what did you have in mind in  
24 saying that it was not being applied to Crow's Nest  
25 rates?

26 A. At the present level of Crow's Nest  
27 rates, it cannot be applied.

28 Q. Under the proposed level of Crow's  
29 Nest rates, that is the increase of the level to a  
30





1  
2 just and reasonable level, what would the situation  
3 be then?

4 A. Then, I would say it would be an  
5 equitable distribution.

6 Q. Now, Mr. Frawley asked you whether  
7 you agreed that there would be an equitable  
8 distribution of transportation costs to such matters  
9 as agreed charges and competitive rates where  
10 competition did not allow you to increase them at  
11 any specific time that he might pick out; for instance,  
12 immediately following a wage increase. And my  
13 note was that you agreed that that was so; that  
14 there were times when agreed charges because of  
15 competition could not be increased immediately  
16 following a wage increase.

17 Arising from that, Mr. Crump, my question  
18 is this. What is the policy of the company, Canadian  
19 Pacific, in regard to agreed charges or competitive  
20 rates if cost of transportation increases so that  
21 the traffic moving on these rates does not equitably  
22 bear its proportion to transportation costs?

23 A. Well, of course, we are trying to  
24 maximize our rates at all times. But if it does  
25 not bear an equitable distribution of the cost, then  
26 we do not seek the traffic.

27 Q. And Mr. Frawley, in another point  
28 in his examination this morning, dealt with the  
29 question of traffic being basic to the plant. And  
30 your answer to him was that grain traffic was basic  
to the plant in western Canada.







1  
2 Do you recall that part of your examination  
3 with Mr. Frawley?

4 A. Yes, I do.

5 Q. And then he went on and discussed  
6 with you certain parts of the railway plant of  
7 Canadian Pacific east. I think he said east of  
8 the C. & E. line.

9 MR. FRAWLEY: West.

10 MR. SINCLAIR: West of the C. & E. Line  
11 into Blind Man's Valley. He talked about hog  
12 production in that area. And, then, he asked you  
13 whether you would agree with the evidence that had  
14 been given that the Canadian Pacific plant had been  
15 built and maintained for the handling of grain,  
16 basically, in western Canada. And my note on that  
17 was that you would not agree with that.

18 MR. SINCLAIR: Q. Now, what did you mean  
19 when you gave that answer?

20 A. Well, I think if you look at the map  
21 of the Canadian Pacific in western Canada, you will  
22 see that ~~their~~ tentacles stretch in every direction.  
23 It is a feeder system of the main line. And  
24 certainly in western Canada the plant was built basic  
25 to grain.

26 Q. And, for instance, Mr. Crump, I think  
27 that in part of your career you helped to locate part  
28 of that plant in a certain part of western Canada ---

29 A. Yes, I did.

30 Q. --- as an engineer. And when you were  
engaged in construction of these lines and built these





1  
2 lines in western Canada, what was the purpose of  
3 building the line, basically?

4 A. The year I was engaged in that  
5 particular aspect of the work was 1928, and the  
6 line that I located was solely for the purpose of  
7 handling grain.

8 Q. Would you mind, please, telling the  
9 Commission what part of western Canada it was?

10 A. Stewart Valley, just out of Swift  
11 Current.

12 THE CHAIRMAN: I know it very well. North  
13 of Swift Current?

14 THE WITNESS: Yes.

15 MR. FRAWLEY: It just indicates that there  
16 are valleys and valleys, that's all.

17 MR. SINCLAIR: Q: Mr. Crump, if grain  
18 was not handled by Canadian Pacific in western Canada,  
19 would you think that the railway plant in western  
20 Canada could continue to be maintained?

21 A. I am quite sure it could not in its  
22 present form.

23 Q. Would it be markedly or slightly  
24 different, or ---

25 A. Very greatly different.

26 Q. Mr. Frawley in his examination this  
27 morning, Mr. Crump, asked you a number of questions  
28 concerning passenger traffic. At one stage, he  
29 said to you, why are you so shy re asking subsidy  
30 to cover the passenger deficit in view of the  
passenger trains operated in the national interest.







1  
2 Now, that is not his exact question, but  
3 that was the purport, as I took it, of his examination.  
4 Do you recall that?

5 A. I recall the question generally.

6 Q. Yes. Mr. Crump, my question arising  
7 from those questions put by my friend, Mr. Frawley,  
8 regarding passenger is this. What passenger trains  
9 on Canadian Pacific are operated in the national  
10 interest?

11 A. I do not know of any passenger trains  
12 being operated in the national interest on the  
13 Canadian Pacific.

14 MR. FRAWLEY: That depends on the definition  
15 of national interest.

16 MR. SINCLAIR: Q. Now, my friend -- if  
17 he ~~thinks~~ that I am being unfair in any way -- I  
18 will certainly put it to you, Mr. Crump, then, to  
19 see what you thought was encompassed in the phrase  
20 "national interest".

21 When somebody says to you is something being  
22 maintained in the national interest, and you say it  
23 is not or it is, what do you mean by the "national  
24 interest"?  
25  
26  
27  
28  
29  
30





1  
2 A. Well, by the national interest I mean  
3 for the interest and betterment of all Canadians.

4 Q. Do you think that the carrying of grain  
5 to export positions is in the national interest in  
6 Western Canada?

7 A. Judging from the importance of it in  
8 the economy, I do.

9 Q. Why do you not think that passenger  
10 trains are in the national interest?

11 A. Well, without attempting any levity at  
12 all, I would say it is indicative in the patronage  
13 that we receive.

14 MR. FRAWLEY: I wonder how Mr. Sinclair would  
15 move the troops if we had a war tomorrow. Wheelbarrows,  
16 I suppose?

17 MR. SINCLAIR: Maybe he would move them, in  
18 view of the question that was put, with high speed  
19 jet aircraft that can carry about 250 troops with  
20 full gear at 600 miles an hour.

21 MR. FRAWLEY: Better call the Minister of  
22 National Defence. I would rather have it from him than  
23 from you.

24 MR. SINCLAIR: If you want to have the  
25 Minister of National Defence, you better call him.

26 MR. FRAWLEY: It is your railway.

27 MR. SINCLAIR: Notwithstanding the fact that  
28 Mr. Frawley would like to cross-examine me now, I have  
29 no further questions to put to Mr. Crump.

30 MR. McKICHAN: Mr. Chairman, arising out of  
re-examination there is one point I would like to put







1  
2 for clarification.

3 THE CHAIRMAN: Yes.

4 MR. McKICHAN: Mr. Crump, do you have the  
5 statement before you which was filed this morning?

6 MR. SINCLAIR: The Source of Funds statement?

7 MR. McKICHAN: Yes.

8 THE WITNESS: Yes, I have it here.

9 MR. McKICHAN: Under the heading "Net  
10 Earnings from Rail after Fixed Charges and Dividends"  
11 the figure of \$20.8 million is shown. Is that  
12 after all dividends paid for this period were set  
13 against the rail earnings?

14 THE WITNESS: No, this is on the Board's  
15 basis of 5 per cent attributable to rail.

16 MR. McKICHAN: Thank you.

17 MR. SINCLAIR: Now, after Mr. Crump was  
18 finished I think the arrangement was that we recall  
19 Mr. Roberts for questions.

20 THE CHAIRMAN: Thank you, Mr. Crump, for  
21 coming here. We may call you back later, and if we  
22 do we will be glad to see you.

23 THE WITNESS: Thank you, Mr. Chairman. I  
24 am available to the Commission at any time that I can  
25 be helpful to them.

26 THE CHAIRMAN: While Mr. Roberts is coming  
27 to the box there is the ruling that we had for today.  
28 Mr. Cooper might read it.

29 MR. COOPER: Mr. Chairman, this is a ruling  
30 concerning several motions and applications made to  
the Commission in the hearings between September 17th,





1  
2 1959, and January 26th, 1960.

3 The Commission has given the most careful and  
4 serious consideration to the submission of counsel for  
5 the provinces, the grain trade and the railways in con-  
6 nection with the several applications and motions before  
7 it for the production of cost data.

8 The Commission is conscious of the fact that  
9 it would be unrealistic, having regard particularly to  
10 the time involved, to order the railways to produce all  
11 the detailed cost data requested for the examination  
12 and use by the applicants within the framework of the  
13 present proceedings.

14 However, the Commission is determined that  
15 in the course of its work under its terms of reference,  
16 and with the aid of its technical and research staff,  
17 it will examine the questions of railway costing as  
18 fully as possible and will make such use of the infor-  
19 mation it gathers as it considers proper, having regard  
20 to the interests of all parties concerned.

21 With these considerations in mind, and giving  
22 the assurance that the Commission will deal to the  
23 extent that it is reasonably practicable to do so with  
24 the subject of costing, the Commission has unanimously  
25 decided that the motions and applications should be  
26 denied except as provided in the next succeeding  
27 paragraph.

28 The Commission understands that the experts  
29 for the railways and the grain trade have been in  
30 consultation with reference to the furnishing of the  
information sought by Mr. MacKimmie on behalf of his







1  
2 clients. In view of the progress which we under-  
3 stand is being made, the Commission reserves its  
4 decision on Mr. MacKimmie's motion made on December  
5 4th, 1959, and in the event that any difficulties  
6 arise, that matter can be referred to us again for fur-  
7 ther consideration.

8 MR. FRAWLEY: Mr. Chairman, the part of  
9 the Order that concerns me most is the part in the  
10 third paragraph, and I will read it:

11 ". . . it" -- the Commission -- "will examine  
12 the question of railway costing as fully as  
13 possible and will make such use of the infor-  
14 mation it gathers as it considers proper,  
15 having regard to the interests of all par-  
16 ties concerned."

17 I would respectfully ask the Commission if  
18 I can advise the consultants that have asked me to  
19 obtain this information for them, if I can give  
20 them an assurance that that information will be  
21 available to them?

22 THE CHAIRMAN: We are just getting the  
23 information now, MR. Frawley, and I ~~at this moment~~  
24 cannot give you that assurance on behalf of the  
25 Commission. We can't give the assurance at the  
26 moment. We can give the assurance that the Commission  
27 will deal to the extent that it is reasonably practi-  
28 cable to do so with the subject of costing.

29 MR. FRAWLEY: I am taking from that, sir,  
30





1  
2 that you will do a very thorough job on costing.

3 THE CHAIRMAN: We are doing work on it now.

4 MR. FRAWLEY: I am more concerned, of course,  
5 not with the information which the Commission requires  
6 for its own use, because that would be of no value  
7 whatever to me, but I am concerned as to whether or  
8 not the information that my people need to do their  
9 work will be made available to them through me, and you  
10 will make such use of the information, as it says here,  
11 "it gathers as it considers proper."

12 THE CHAIRMAN: Having regard to the interests  
13 of all parties concerned.

14 MR. FRAWLEY: That is right. I can't press  
15 you about it, but I would like you to clearly under-  
16 stand my position.

17 THE CHAIRMAN: I understand your position.

18 MR. FRAWLEY: If I tell them I can give them  
19 no assurance, then, as I said, I will report to the  
20 Premier of Alberta about it. I have already indicated  
21 that there are certain eventualities to come about, but  
22 I would like, if possible, to be able to say to the  
23 Premier of Alberta I am not going to get costing infor-  
24 mation.

25 THE CHAIRMAN: You may get costing information  
26 and you may not.

27 MR. FRAWLEY: I can have no assurance that I  
28 will get the costing information I have asked for?

29 THE CHAIRMAN: You have no assurance. We  
30 will try to obtain all the information we can.

MR. FRAWLEY: I can only say, sir, that it puts







1  
2 a tremendously different complexion on the Commission  
3 as far as the Province of Alberta is concerned.

4 THE CHAIRMAN: As a matter of fact, Mr.  
5 Frawley, if the Commission had granted the motions  
6 moved by you, then the Commission might as well have  
7 adjourned these hearings for a matter of six or eight  
8 months, and, having regard to the target date, six  
9 or eight months can become sixteen or eighteen months.  
That is the view that the Commission has taken.

10 Mr. Sinclair?

11 MR. SINCLAIR: Mr. Roberts.

12 JAMES MERRICK ROBERTS, resumed.

13 MR. SINCLAIR: The purpose of Mr. Roberts  
14 returning at this time was for one part of his  
15 testimony, and he is answering my friend, Mr. Blair,  
16 answering such questions as the Commission wish to  
17 direct to him, and any re-examination that I might have  
18 arising out of Mr. Blair's cross-examination.

19 Would you please answer my friends?

20 MR. BLAIR: Mr. Chairman, once again I would  
21 like to thank you and members of the Commission for  
22 the special indulgence and Mr. Roberts and Mr. Sinclair  
for being so cooperative.

23 I am going to cross-examine Mr. Roberts on the  
24 precis of his evidence which is entitled: "Memorandum  
25 in respect of (a) the principle of railway rate-making.

26 CROSS-EXAMINATION BY MR. BLAIR:

27 Q. Mr. Roberts, I direct your attention to  
28  
29  
30





the last paragraph on page 2 which reads as follows:

"The basic objective of railway rate making is to set rates at a level which will permit the maximum amount of traffic to move freely and at the same time permit the railways to earn maximum net revenue so as to maintain an efficient railway operation and provide a fair return on the capital invested."

Mr. Roberts, in your experience do you feel that there may not become a contradiction in the two objectives of rate making? Is it always possible to set rates at a level which will permit free movement of traffic and, at the same time, provide a maximum net revenue?

A. Mr. Blair, that is our objective. We are not perfect, of course, but we are always striving towards that end.

Q. What is your prime objective: to move the traffic or to maximize the revenue?

A. Well, they both interlock when obtaining the maximum utilization out of your facility.







1  
2 Q. In your experience is there a case --  
3 different cases arising where you abandon the hope of  
4 earning net revenue in order to move the traffic?

5 A. Earning net revenue?

6 Q. Yes.

7 A. You mean over the variable cost? Is  
8 that what you are speaking of?

9 Q. Yes.

10 A. Well, there is only one instance, to my  
11 knowledge, where we are doing that at the present time,  
12 and that is the statutory grain movement. We would not  
13 handle traffic at less than cost.

14 Q. Although I know Mr. Sinclair will im-  
15 mediately interrupt me, are you able to say that of  
16 all the traffic on the railway this is the only traffic  
17 that moves at less than cost?

18 A. Freight traffic?

19 Q. Yes.

20 A. Well, if there are any instances brought  
21 to our attention we will certainly take steps to rectify  
22 them.

23 Q. Are there any major areas of traffic  
24 where you perhaps cover your variable cost but you do  
25 not fully cover your fully distributed cost?

26 A. Well, in general -- you mean any general  
27 segment of traffic?

28 Q. Yes.

29 A. I couldn't answer that offhand. There  
30 are instances in traffic movements, I would say, where  
you are handling all the goods of a country and not just





1  
2 one particular commodity, where there are bound to be,  
3 under the conditions existing today, some rates which  
4 are low and some which are high.

5 Q. But you can't answer my question as to  
6 which is your primary objective -- to move the traffic  
7 or earn the revenue?

8 A. Both.

9 Q. I ask you to direct your attention to the  
10 next paragraph in your evidence, and I propose to read  
11 to you two sentences. Mr. Sinclair points out that  
12 your evidence was corrected:

13 "In all rates except the statutory rates  
14 the value of the service to the shipper or con-  
15 sumer establishes an upper limit, as indicated  
16 by the ability of the traffic to pay the pro-  
17 posed rates and still move at optimum volume.  
18 By this is meant that the demand for the goods  
19 at the point of destination will be such that  
20 the cost of transportation when added to the  
21 other costs involved, will support a traffic  
22 level as near to the maximum as possible.  
23 This is subject to an overall limit in that  
24 rates on all the traffic must not result in total  
25 net revenue beyond a reasonable level."

26 And then, down in the third sentence:

27 "This is subject to an overall limit  
28 in that rates on all the traffic must not re-  
29 sult in total net revenue beyond a reasonable  
30 level."

My question is this: reasonableness is







1  
2 judged by you in relation to total traffic on the  
3 railway?

4 A. Well, the overall return is set by the  
5 permissible level of earnings set by the Board.

6 Q. But the test is not the reasonableness  
7 of a particular rate?

8 A. Well, we could not -- the test is not  
9 the reasonableness of a particular rate?

10 Q. No.

11 A. Well, when we are considering a particular  
12 rate and a particular movement, it must be just and  
13 reasonable both to the shipper and to the railway.

14 Q. If the aggregate result must be reasonable,  
15 wouldn't it appear to you to be the case that some rates  
16 are unreasonable in order to achieve that average?

17 A. No, sir, I don't say they are unreasonable,  
18 in that they move the traffic. So long as the traffic  
19 is moving, I would say they are reasonable.

20 MR. BLAIR: With the permission of the  
21 Commission, I would like to read an extract from the  
22 evidence given by Mr. Jefferson to the previous Royal  
23 Commission.

24 THE CHAIRMAN: You want the witness to comment  
25 on it?

26 MR. BLAIR: Yes, Mr. Chairman, if that is  
27 permissible, and I don't think I am taking it out of  
28 context.

29 THE CHAIRMAN: You have the citation?

30 MR. BLAIR: Yes; Volume 82 of the evidence  
heard on February 23, 1950, at page 16247.





1  
2 MR. SINCLAIR: Maybe my friend would just  
3 read it and we can show the book to the witness and he  
4 can have his eye on it as he then takes the question  
5 from my friend.

6 MR. BLAIR: Mr. Evans is speaking ---

7 MR. SINCLAIR: Oh, well, that is different.

8 THE CHAIRMAN: What is that?

9 MR. BLAIR: Could I read the extract?

10 "Mr. Evans: The test Mr. Brazier read  
11 is the overall test as to the reasonableness of  
12 the rate level. It does not follow at all that  
13 you examine the earnings of the company and the  
14 net return it gets from the mass of rates when  
15 you are considering the reasonableness of one  
16 rate; but the tests for reasonableness are  
17 exactly the same for the shipper as they are  
18 for the railways; in other words, what is  
19 reasonable for the shipper must be reasonable  
20 for the railways, and you must find what is  
21 reasonable to both, either individual rates  
22 or a sum total.

23 "The Chairman: Well, yes, but what the  
24 shipper would put behind his definition of  
25 reasonableness to him are not the same  
26 factors as you embrace in your standard."

27 THE CHAIRMAN: Is that a statement of Mr.  
28 Jefferson or Mr. Evans?

29 MR. BLAIR: I am sorry, it is Mr. Evans who  
30 makes this statement. I wonder if the witness would  
care to comment on whether it is still the basic standard







1  
2 in judging the reasonableness of the rate structure?

3 MR. SINCLAIR: Let him see it.

4 THE WITNESS: Well, as I read this, Mr.  
5 Evans is saying just exactly what I said, that when  
6 you are considering an individual rate you examine it  
7 from the point of view of its justness and reasonable-  
8 ness in relation to the shipper and the consignee.  
9 On that basis, with the exception of the statutory  
10 rates on grain, our rate structure today -- and it is  
11 predicated on that basis -- is, in my estimation, a  
12 just and reasonable level, subject always to the  
13 permissive level which is at the moment prescribed by  
14 the Board.

15 MR. BLAIR: Q. I interpret you perhaps  
16 differently than you intend, but are you saying the  
17 concern of the railways in fixing the rate structure is  
18 an overall reasonableness or reasonableness in relation  
19 to individual rates?

20 A. We deal with rates individually as to  
21 their justice and reasonableness in our day to day  
22 operations. When we are required through certain  
23 circumstances to obtain additional revenue, either  
24 through increased labour costs -- and of course the  
25 rate structure itself, in our estimation, with this  
26 one exception, being just and reasonable -- we, there-  
27 fore, apply whatever increase we are asking for to the  
28 rate level as a whole.

29  
30 (Page 4148 follows)





1  
2 Q. Perhaps Mr. Sinclair would hand me  
3 that. And now, Mr. Roberts, on the following page  
4 which is 16248, Mr. Commissioner Angus said this  
5 at the end of a passage:

6 "COMMISSIONER ANGUS: Well, that is  
7 what I meant, I think, that the  
8 'just and reasonable' as applied  
9 to the aggregate is, do those rates  
10 in the aggregate give sufficient net  
11 revenue to the railway? -- perhaps  
12 one should have the words ~~taken~~  
13 one with another.

14 MR. EVANS: Yes.

15 COMMISSIONER ANGUS: Then when it  
16 comes to saying whether a particular  
17 rate is reasonable, it is relative to  
18 that ~~accepted~~ aggregate level and saying,  
19 our shippers, in comparison with one  
20 another paying just and reasonable  
21 rates? The second test would then be  
22 a relative test.

23 MR. EVANS: Yes. Prima facie standard  
24 rates are just and reasonable."

25 Now, Mr. Roberts, I will let you look at  
26 this.

27 A. Yes.

28 Q. Mr. Roberts, do you think this is  
29 a fair summary of the principles of rate making  
30 as regards the use of the word "reasonableness"?







1  
2 A. Well, I must come back, Mr. Blair,  
3 that in our day to day operations we deal with  
4 individual rates and it is a question of setting  
5 those rates on a just and reasonable basis. I  
6 can't get away from that. That is what we do  
7 from day to day to move traffic.

8 Q. Well, is Mr. Commissioner Angus in  
9 error in suggesting that the test of just and  
10 reasonableness in relation to individual rates  
11 is the relation of those rates to the general rate  
12 structure?

13 A. The relation - well, I think the  
14 test, Mr. Blair, is whether the rates are moving  
15 the traffic. Now, that is my test of a just and  
16 reasonable rate, whether the rates are moving the  
17 maximum amount of traffic and at the same time  
18 returning the maximum amount of net revenue to the  
19 railway.

20 Q. And you would judge this, though,  
21 from the standpoint of the railway obtaining the  
22 traffic, not the position of the shipper using  
23 the railway?

24 A. Mr. Blair, it is an interlocking  
25 situation; we get the maximum amount of traffic  
26 through negotiations with the shipper as to the  
27 level of rates.

28 Q. Mr. Roberts, we will leave this  
29 subject now.

30 I would like to ask you now in a general  
way with relation to that paragraph, the first full





1  
2 paragraph on page 3, whether value of service is  
3 the main criterion for the establishment of  
4 individual rates.

5 A. Well, the value of service is one.  
6 The various features that are taken into  
7 consideration, Mr. Blair, are set forth in the  
8 principles of rate making, such as loadability and  
9 those other various factors, claims, and everything  
like that.

10 Q. In other words, there are a number  
11 of criteria, and I take it that you are bringing  
12 me to that part of your testimony which deals with  
13 the classification.

14 A. Well, they all are interwoven, Mr.  
15 Blair.

16 Q. When you say that the upper limit  
17 of a rate is established by the value of service,  
18 what do you mean?

19 A. Well, that is the value to the shipper  
20 to move his goods to a given destination; what  
21 value is it to him to get his goods there?

22 Q. Well, would this test be the same  
23 for traffic which one might call captive traffic,  
24 and traffic which one might call competitive traffic.

25 A. Well, of course, Mr. Blair, the  
26 competitive traffic refers to traffic which is  
27 competitive with other modes of transportation;  
28 your competition sets the ceiling, what the  
29 competition charges, that there is a certain  
30 amount of competition in every rate you make in that







1  
2 it is a question of getting it to destination.

3 Q. Well, in your judgment as a railway  
4 official, is the value of service the same for  
5 traffic which is subjected to competition and traffic  
6 which is not subjected to competition?

7 A. I would say there is value of service  
8 found in the competitive rate because there is a  
9 value of service principle entering into the rates  
10 of your competitors in other forms of transportation.

11 Q. Would you be willing to admit that  
12 the value of service principle might also be stated  
13 as the old principle of what the traffic will bear?

14 A. No, I prefer the other definition  
15 that Mr. Mann put on it. I forget the exact words.

16 COMMISSIONER MANN: Not change what the  
17 traffic will not bear.

18 THE WITNESS: Not change what the traffic  
19 will not bear.

20 MR. BLAIR: Q. Then, we are just a little  
21 further ahead in our analysis; we are now into  
22 what the traffic will bear or will not bear as something  
23 important. What are the criteria you use in judging  
24 what the traffic will bear or will not bear?

25 A. The movement of the traffic, sir,  
26 whether the movement is inhibited.

27 Q. And the movement could be inhibited  
28 either by too high a rate or by the presence of  
29 competing modes of transportation?

30 A. Well, it depends how you mean that.  
If there is another mode of transportation, well then





1  
2 the traffic - if the railways don't meet the situation  
3 it would move by the other mode of transportation.

4 Q. Well, I suppose that you and I would  
5 never really agree that the value of service is a  
6 principle which varies depending upon whether or not  
7 that service is subjected to competing modes of  
8 transportation.

9 A. I would say that it is the value of  
10 service which every mode of transportation is handling  
11 the traffic, Mr. Blair.

12 Q. Mr. Roberts, are you of the opinion  
13 that the value of service is still a valid and  
14 proper method of establishing railway rates?

15 A. I certainly do, Mr. Blair, because  
16 certainly so far as the Province of British Columbia  
17 is concerned, and particularly products of lumber  
18 and fruit and coal, the value of service is a basic  
19 feature in those rates.

20 -

22 -

25 -

28 -







1  
2 Q. And in your opinion the value of  
3 service principle is still a very proper one to use  
4 in establishing rates?

5 A. Yes, sir.

6 Q. I have here a book which was published  
7 by Harvard University Press in 1959. It is entitled  
8 "Competition in the Transportation Industries", and  
9 there are four authors: Myer, Peck, Stenason and  
10 Zwick.

11 I might perhaps, Mr. Chairman, take a  
12 minute to read a portion of the preface. I am  
13 reading from page 7 of the preface:

14 "The materials and ideas in this book  
15 were initially developed as part of a  
16 unique research and educational enterprise.  
17 President Norris Crump of the Canadian  
18 Pacific Railway commissioned a group of  
19 economists, chaired by Professors  
20 J.K. Galbraith and John D. Black of  
21 Harvard, to study the various problems  
22 confronting the Canadian Pacific and,  
23 more generally, the Canadian economy.  
24 Unlike so many expert reports, this  
25 research was not to be carried forward  
26 in unrealistic isolation, and then to  
27 gather dust in attractive binders. Rather,  
28 a committee of Canadian Pacific executives  
29 served as a seminar for exploring the  
30 various ideas in their formative stage.





1  
2 This was a very active audience indeed,  
3 and the suggestions and criticisms of these  
4 individuals were a more important source  
5 of ideas and materials than any of those  
6 cited in the numerous footnotes. The  
7 members of this study group were Messrs.  
8 F.C.S. Evans, R.A. Emerson, F.V. Stone,  
9 G.M. Rountree, C.D. Edsforth, S.M.  
10 Gossage, I.D. Sinclair and C.F. Fraser."

11 Now, this is obviously a book of great  
12 worth and importance.

13 MR. SINCLAIR: It may only demonstrate  
14 that the people he has named were not able to  
15 convince their Professors as to the error of their  
16 ways.

17 MR. BLAIR: Q. But, Mr. Roberts, I merely  
18 ask your comment on this paragraph which appears  
19 at page 181 of this book:

20 "Although the proponents of such a  
21 policy never put their case explicitly,  
22 it is generally argued that value-of-  
23 service rate-making is desirable for  
24 the entire economy and a necessity for  
25 the financial stability of transportation  
26 industries. The preponderance of the  
27 evidence, however, would appear to point  
28 to exactly a contrary conclusion; namely,  
29 that value-of-service rate-making as now  
30 practiced is both undesirable and







unnecessary".

Now, Mr. Roberts, Mr. Sinclair will hand you the book and I would appreciate if you would comment upon the paragraph which I have read.

MR. SINCLAIR: Well, Mr. Chairman, before Mr. Roberts answers -- I have a little familiarity with this context, having read it once -- and I do think that Mr. Blair has to continue reading a little bit to put the statement that he has put to the witness in context. Maybe, to assist, I could go on.

MR. BLAIR: Surely.

MR. SINCLAIR: Following right along from -- starting a little bit ahead of it:

"Price discrimination has also increased because of the wider use of value-of-service rate-making in the other sectors of transportation. Before 1935, competition in trucking kept rates in line with cost. With the passage of the Motor Carrier Act of 1935 the motor carriers were required to publish their rates quickly, 'and it was easier to adopt the pattern of railroad rates than to construct an entirely independent structure of rates'. Furthermore, an adoption of the railroad value-of-service rate structure represented a direct matching of the price of the principal





1  
2 competition. Eventually, the use of  
3 rate 'stops' (a devise whereby the  
4 rates on low-rated commodities in the  
5 railroad classification were made the  
6 same as a higher class) and reduction  
7 for some higher-rated commodities may  
8 have lessened the discrimination. Yet  
9 a study of fragmentary data collected in  
10 1946 showed extensive differences in the  
11 margins between the out-of-pocket costs  
12 and rates."

13 Then, the paragraph my friend read.

14 Then, following after what he said:

15 "The argument for desirability of value-  
16 of-service rate-making rests in part on  
17 the argument that low rates on commodities  
18 which have a high elasticity of demand  
19 are a net gain to society. Railroads,  
20 so this argument goes, have a high  
21 fixed cost. So long as the rate covers  
22 the additional cost of carrying the  
23 traffic, it represents no burden on  
24 either the carrier or other shippers.

25 As Professor Locklin states:

26 'Preferential (discriminatory) rates  
27 relieve rather than burden other  
28 traffic if two conditions are fulfilled.  
29 These are (1) that the rate must more  
30 than cover the direct costs; and (2)







1  
2 that the traffic will not move at  
3 higher rates'".

4 Now, I think that you have to read in  
5 all that context. I would go one further:

6 "The logic here is impeccable and one  
7 must agree with its essential truths.  
8 As stated earlier, there is no point  
9 in forcing carriers to adopt cost as  
10 the only criterion of pricing and to  
11 preclude exploration of the possibility  
12 of utilizing price discrimination as a  
13 means of obtaining a fuller utilization  
14 of the transport industries capacity.  
15 The objection to value-of-service rate-  
16 making as now practiced is that it  
17 violates Professor Locklin's two  
18 conditions; rates do not always cover  
19 direct or long-run marginal costs and  
20 the traffic sometimes will move at  
21 higher rates".

22 In the light of what I have read, I think  
23 my friend can keep going, if he likes.

24 MR. BLAIR: I am indebted to my friend.  
25 I think the point in my reading this particular  
26 paragraph was to bring to the Commission's attention,  
27 as well as to the attention of the witness, the  
28 fact that there is a body of dedicated opinion which  
29 believes that the value of service principle is  
30 out of date.





1  
2 MR. SINCLAIR: That is not what that says.  
3 What that says is that if you follow Professor  
4 Locklin's criterion ---

5 THE CHAIRMAN: Mr. Roberts, as I understand  
6 this situation, when the railway had a monopoly, so  
7 to speak, of traffic, then it could apply the value  
8 of service principle between itself and the shippers?

9 THE WITNESS: That is correct, sir. That  
10 is correct.

11 THE CHAIRMAN: And it could, as it wished,  
12 itself internally subsidize as between shippers?

13 THE WITNESS: That was to permit the  
14 maximum movement of traffic, sir.

15 THE CHAIRMAN: But that competition, in  
16 measure, the principle of value of service was  
17 envisaged, and is not what it was when there was  
18 a monopoly, but you still have to have regard to  
19 revenue?

20 THE WITNESS: Certainly, in a country like  
21 ours, sir, you have to have regard to revenue, where  
22 so much of our traffic, as I say, primary products  
23 like the Province of British Columbia -- their  
24 lumber, their fruit, and the coal, and this  
25 statutory grain that we are speaking of. We applied  
26 the value of service principle to that.

27 THE CHAIRMAN: Well, you are not as free  
28 to apply it, because of competition, as you were  
29 thirty years ago?

30 THE WITNESS: No, sir, because of the  
competition. But it still is a factor.







1  
2 MR. BLAIR: Q. Is it a main factor, Mr.  
3 Roberts?

4 A. It is a factor and always will be,  
5 Mr. Blair. You see, you must remember that this  
6 book is slanted against conditions in the United  
7 States which are vastly different from the standpoint  
8 of regulations than they are in this country.

9 Q. If you are like Mr. Sinclair, you do  
10 not agree with the Professor; is that right?

11 A. Oh ---

12 MR. SINCLAIR: Oh, no. I often agree  
13 with professors. I just like to surround them with  
14 all the facts and not just pick them out, that's  
15 all.

16 MR. BLAIR: Well Mr. Chairman, I will be  
17 as brief as I can.

18 MR. SINCLAIR: You first have to interpret  
19 them, I have found; and, after they have interpreted  
20 it, you wonder if you ever said it the way they  
21 have got it down.

22 MR. BLAIR: Do you want to go on?

23 MR. SINCLAIR: I am just saying, "Read  
24 the whole book".

25 MR. BLAIR: Q. Mr. Roberts, I was  
26 interested in your response to my question about  
27 criteria of railway rate making, when you referred me  
28 to the various matters which I referred to on pages  
29 5 and 6 with regard to classification, and you  
30 mention, among other things, the loadability?

A. Yes, sir.





1  
2 Q. I was wondering whether you really did  
3 give full consideration to the loadability of your  
4 various commodities in fixing their rates?

5 A. Yes, because certainly in the overall  
6 movement of such commodities as coal, they are  
7 related to the class rate in the classification --  
8 the commodity rates are -- and the classification  
9 reflects the loadability.

10 Q. And you are convinced that for the  
11 movement of commodities such as coal and lumber  
12 and other bulky commodities that the maximum and  
13 minimum rules are satisfactory in the interests of  
14 the shippers?

15 A. The maximum -- how do you mean that?

16 Q. The maximum and minimum loading --  
17 the poundages -- that they are satisfactory and  
18 in the interests of the shippers? The maximum  
19 weights, I'm sorry.

20 A. The maximum weights?

21 Q. Yes?

22 A. Well, yes, sir.

23 Q. I was wondering whether the  
24 classification has too much significance these days  
25 in regard to pool car shipments where, as I  
26 understand it, the mixing rule has been substantially  
27 relaxed?

28 A. Yes, the classification still has  
29 significance insofar as the pool car shippers are  
30 concerned. They still have included in their cars  
traffic moving at class rates.







1  
2 Q. And when you are fixing the commodity  
3 rates, say, for lumber, for non-statutory grain,  
4 and so forth, do you have regard to the criteria  
5 established for the purposes of classification?

6 A. Well, certainly the Board prescribed  
7 the scale of rates on other than statutory grain,  
8 and I would say very definitely gave consideration  
9 to the matter of loadability.

10 Q. I notice that there is no reference  
11 in the classification or the summary you have given  
12 of it to the question of the routing -- the  
13 density of traffic. Do you have regard to that  
14 in fixing particular commodity rates?

15 A. Mr. Blair, again I come back to the  
16 question of primary products -- to lumber and coal  
17 and commodities such as that. But you must remember  
18 this: that whatever rate we set in Canada applies  
19 both to one carload or ten or twenty carloads. I  
20 mean, it applies to the big shipper and the little  
21 shipper.

22 Q. Would you see any advantage in  
23 permitting train load rates to be established?

24 A. Well, we had them for a while, sir,  
25 on logs, and we still have a few. They will expire  
26 automatically as the limits are cleaned out. I do  
27 not know whether there would be any advantage to  
28 us for train load rates. They might, under certain  
29 circumstances. I would not like to make a definite  
30 answer to that.

31 Q. Your department has not given any





1  
2 consideration to this in recent years?

3 A. No, sir.

4  
5  
6 (page 4168 follows)  
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8  
9  
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1  
2 Q. You are familiar with Exhibit 87, I  
3 believe it is -- the Canadian National Railways exhibit?

4 MR. SINCLAIR: Have you not got a similar  
5 one from the Canadian Pacific where the points would be  
6 more easily handled by the witness? It is all right, the  
7 witness says.

8 MR. BLAIR: Well, we are going to speak  
9 about places like Calgary and Edmonton: are they on  
10 your railway?

11 MR. SINCLAIR: Yes.

12 MR. BLAIR: Q. Mr. Roberts, I wondered  
13 whether the commodity rate on domestic grain has been  
14 established with the view of permitting the traffic to  
15 move; would the traffic move at the rates now estab-  
16 lished for domestic grain if there were no subsidy on  
17 the movements from the prairies to the Pacific coast?

18 MR. SINCLAIR: I wonder if my friend would  
19 make clear what he has in mind.

20 MR. BLAIR: Well, I have asked the witness  
21 a question and I have asked him whether the established  
22 commodity rates on domestic grain which are set forth  
23 in a representative fashion in this exhibit would  
24 move the traffic from prairie points to the Pacific  
25 coast if that movement was not subsidized.

26 MR. SINCLAIR: Who says it is subsidized?

27 THE CHAIRMAN: You mean feed grain?

28 MR. SINCLAIR: Well, that is not what he  
29 said.

30 MR. BLAIR: I did.

MR. SINCLAIR: Are you suggesting there is no





1  
2 other traffic but feed grain moving to the Pacific coast?

3 THE CHAIRMAN: It is the feed grain you are  
4 referring to?

5 MR. BLAIR: Yes.

6 MR. SINCLAIR: Well, that is not all the  
7 domestic movement.

8 MR. BLAIR: Q. Would the witness be able to  
9 say whether this part of the traffic would move if it  
10 were not for the subsidy?

11 A. I would say yes, because there is also a  
12 substantial movement within the prairie provinces them-  
13 selves and in the Kootenays of British Columbia at those  
14 rates? I don't see that there would be any difference.

15 Q. You think if the subsidy were removed  
16 that you would still be able to move feed grains at the  
17 established commodity rate to the Pacific coast in the  
18 present volumes?

19 A. I consider the movement would still take  
20 place, yes, because you have the dairy herds of the  
21 Fraser Valley. The grain is brought in for them, and  
22 the milk is sold in the City of Vancouver and New  
23 Westminster, and they are going to get the milk.

24 Q. What about the poultry?

25 A. The poultry likewise will still be sold  
26 in the Vancouver market.

27 Q. Well, I hope the Government of Canada does  
28 not hear of you considering this subsidy is unnecessary.  
29 Your view is that this commodity rate on domestic grain  
30 in so far as it relates to the movement of feed grains  
has been established at a level which will move the  
traffic?







1  
2 A. Yes.

3 Q. Which meets that fundamental test you  
4 gave earlier that the rate must be at a level which would  
5 move the traffic?

6 A. I would say very definitely, because the  
7 scale in the first place was prescribed by the Board.

8 Q. You will note in this exhibit that there  
9 are several columns of rates: one is entitled "Export  
10 Rate", and the next one "Domestic Rate". Taking the  
11 Calgary to Vancouver movement, the export rate is 20  
12 cents per 100 pounds and the domestic rate, at the  
13 17% level, is 70 cents per 100 pounds, reduced to  
14 66 cents per 100 pounds. The Edmonton disparity is  
15 as between 70 cents and 78 cents. Is there any dif-  
16 ference in the cost of moving grain for export or for  
17 domestic use?

18 A. Well, generally speaking, the cost, I  
19 don't imagine, would be any different. I am not a  
20 costing man, but, generally speaking, it would not be  
21 any different; but, the circumstances surrounding the  
22 movement of the traffic are entirely different.

23 Q. Mr. Roberts, you propose in effect, in  
24 your submission to double the return for the export  
25 movement of grain. The rates which are now 20 cents  
26 per 100 pounds would, in effect, advance your revenues  
27 to 40 cents per 100 pounds.

28 A. Well, we are suggesting a 100 per cent  
29 increase in the rates.

30 Q. And this is on the basis that that would  
fully compensate your railway for the cost of moving





1  
2 that traffic?

3 A. That is correct.

4 Q. Well, then, this rate for domestic grain  
5 from Calgary to Vancouver, which is now set at 70 cents  
6 per 100 pounds and reduced to 66 cents because of the  
7 special subsidy, is far in excess of the cost of moving  
8 that product?

9 A. That is right.

10 Q. What is the reason for this tremendous  
11 disparity between the cost of moving the grain and the  
12 rate which you charge on it?

13 A. As I said to you, you are not comparing  
14 like and like. The circumstances surrounding the two  
15 movements are entirely different. The movement of  
16 domestic grain for feeding into British Columbia is a  
17 movement that stops in the Fraser Valley and Vancouver.  
18 The grain is used for feeding livestock and poultry and  
19 the resultant products are sold in Vancouver or that  
20 vicinity. It is all a movement within the Canadian  
21 market. You are comparing that with the grain  
22 moving to Vancouver into the export elevators, and it  
23 has just started on its journey. It is going out of  
24 Vancouver into the markets in the United Kingdom and in  
25 Japan, say, or India in competition with grain grown  
26 in other countries. The railways realize that the  
27 transportation, so far as they are concerned, is only  
28 part of the total cost, and it is important for these  
29 products to get out of our country in competition with the  
30 products of other countries. I don't think that idea  
is peculiar to transportation. I would say manufacturers







1  
2 themselves in Canada are reaching out into the foreign  
3 markets and they have to meet that same sort of com-  
4 petition. It is, you might say, a joint enterprise.

5 Q. I am sure no one would dispute the fact  
6 that it is in the national interest to encourage  
7 exports, but you have not answered my question as to  
8 why the domestic movement should be overcharged to  
such a considerable extent?

9 A. I don't think it is overcharged. I say  
10 it is paying a just and reasonable rate.

11 Q. There is one other matter I would like  
12 to direct your attention to, and it occurs on page 13  
13 of your precis. Looking at page 13, the first para-  
14 graph and the last sentence:

15 "Accordingly, in determining a level of  
16 just and reasonable rates for Western export  
17 grain traffic it is necessary first to establish  
18 a level of rates on such traffic which will  
19 result in such rates having a proper place in  
the freight rate structure. "

20 Now, the question I wish to ask is why is  
21 it necessary to do that rather than to put the rates  
22 simply on the basis of the cost of moving the traffic?

23 A. The cost of moving the traffic -- the  
variable cost?

24 Q. No, the fully distributed cost, which is  
25 the main contention of your railway in this case.

26 MR. SINCLAIR: Well, if it is, that is the  
27 first time I knew it. My friend can put questions, but  
28 I think he had better wait until we put our own  
29  
30





1  
2 contentions. I didn't know the main contention was  
3 that rates should be fixed on full cost.

4 MR. BLAIR: I am just dealing with the  
5 question of the export rates on grain.

6 MR. SINCLAIR: That is not our main conten-  
7 tion there either. Our main contention was that the  
8 difference -- that a just and reasonable level for  
9 export grain rates would be one where the contribution  
10 over variable cost would equal the difference between  
11 the variable and constant costs. That was made clear.  
12 My friend has not been here all the time, but that  
13 was made very clear.

14 -

15 -

16 -

17 -

18 -







1  
2 MR. BLAIR: Mr. Chairman, I don't want to  
3 quarrel with Mr. Sinclair, but I think that it is  
4 generally understood that what the railway wants to  
5 happen is to be fully remunerative for its costs.

6 THE CHAIRMAN: What is your question again?

7 MR. BLAIR: Mr. Chairman, I asked the witness  
8 why, in fixing these new rates, he considers it im-  
9 portant to fit them into a proper place in the freight  
10 rate structure rather than simply to have regard to the  
11 cost.

12 THE WITNESS: Well, we are not making rates  
13 on cost, Mr. Blair. This is what we consider to be,  
14 after testing all of the circumstances, a fair and  
15 reasonable level of rates.

16 MR. BLAIR: Q. So that the rate which you  
17 have suggested here has more to it than the element of  
18 recouping your cost in moving the grain?

19 A. It is putting the rates on a reasonable  
20 level in the freight rate structure at the present  
21 time.

22 Q. And, finally, Mr. Roberts, I want to  
23 direct your attention to the question of burden which  
24 has been discussed by other people. I direct your  
25 attention to page 19 of your precis and the second  
26 last paragraph where you say:

27 "In view of the large volume of Western  
28 grain moving to export positions in relation  
29 to total traffic, it is apparent that unless a  
30 substantial burden were to be placed on other  
traffic or on the railways, the just and





1  
2 reasonable level must meet the total cost of  
3 transporting the grain traffic."

4 A. That is correct.

5 Q. I note that reference to the total cost  
6 of transporting the grain traffic as part of your sub-  
7 mission.

8 A. Because of the large segment of traffic  
9 involved.

10 Q. You say "unless a substantial burden were  
11 to be placed on other traffic." Do you not agree that  
12 a burden has already been placed on other traffic?

13 A. Well, of course, rates have moved up in  
14 general revenue cases higher than they would have had we  
15 been able to place the increases on statutory grain.

16 Q. Would the rate on lumber, say, from  
17 the Pacific coast to prairie points be as high as they  
18 are today if grain had borne its proper share of postwar  
19 rate increases?

20 A. I would not care to say that because  
21 there have been certain adjustments made in the lumber  
22 rates from time to time.

23 Q. You say "unless a substantial burden" --  
24 these are your words --- "were to be placed on other  
25 traffic." Have you any idea what other types of  
26 traffic might have to bear any burden?

27 A. Well, they have all shared, I would say,  
28 Mr. Blair, in varying degrees, because we have applied  
29 increases as and when it was possible for us to do so.

30 Q. So that your conclusion is that the  
burden has been imposed upon them?







1  
2 A. There has been a burden on traffic and  
3 a burden on the railways as a result of the statutory  
4 rates.

5 MR. BLAIR: That is all, Mr. Chairman. Thank  
6 you again for your consideration.

7 THE CHAIRMAN: Thank you, Mr. Blair.

8 Let us take a break for five minutes. Com-  
9 missioner Mann has some questions.

10 ---Short recess.

11 COMMISSIONER MANN: Mr. Roberts, you have been  
12 a very patient witness, and there are just a few ques-  
13 tions.

14 THE WITNESS: Mr. Mann, we are here to help.

15 COMMISSIONER MANN: On page 15 of your precis  
16 you mention that the statutory grain rates do not progress  
17 uniformly and this, of course, is amply borne out by  
18 having a look at Exhibit No. 88. Have you got that  
19 handy there?

20 A. I have, I think, my own copy of it, sir.

21 COMMISSIONER MANN: Now, if I recall correctly,  
22 Mr. Roberts, you mentioned in reply to a question that  
23 the groupings were created because of business considera-  
24 tions?

25 THE WITNESS: Well, I would say it in this way,  
26 in my opinion, sir, that they extended the rates as the  
27 towns grew up. It is significant to me that the break-  
28 point in the groupings are the larger towns, like, for  
29 example, Winnipeg breaks at La Prairie, the next one  
30 breaks at Brandon, Griswold and Qu'Appelle, likewise





1  
2 Moose Jaw. It seems to have been predicated on the  
3 major towns.

4 COMMISSIONER MANN: You wouldn't call  
5 Parkbeg a major town?

6 THE WITNESS: Well, it would be as far as  
7 the gathering of grain is concerned back in 1899,  
8 probably.

9 COMMISSIONER MANN: Anyway, these groupings  
10 were laid out having in mind the historical develop-  
11 ment of grain rates?

12 THE WITNESS: I would say so.

13 COMMISSIONER MANN: Has there been a shift  
14 in grain production since these groupings were laid  
15 out?

16 THE WITNESS: As we say in the evidence, when  
17 the rates were originally put in the grain primarily  
18 was grown in Manitoba, but now, of course, you have  
19 the Regina plains, and all the territory surrounding  
20 the main line of Canadian Pacific, both north and  
21 south, is a tremendous grain growing area.

22 COMMISSIONER MANN: Would it be fair to  
23 say that these groupings are not now as important  
24 as they once were in view of the change?

25 THE WITNESS: I would say it this way, that  
26 they are important in so far as the farmer is con-  
27 cerned.

28 COMMISSIONER MANN: Now, it appears to me  
29 that Canadian Pacific does consider these groupings  
30 important because of several points mentioned, that  
certain proposals would have disturbed long-established







1  
2 groupings, and there is reference to that at the top of  
3 page 16, and again this is mentioned at page 18 of  
4 your precis where you say that a uniform increase of  
5 100 per cent is proposed -- I am paraphrasing -- because  
6 this method retains the group relationships?

7 THE WITNESS: That is correct.  
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2 COMMISSIONER MANN: Now, how does it do  
3 that, Mr. Roberts, when you proposed the percentage  
4 increases? Can I show you something I have done here,  
5 and perhaps we will try and relate to it in such a  
6 way as will be clear in the transcript without putting  
7 this in as a memo.

8 You will notice on your Exhibit 88 the  
9 difference in rates between the various groups which  
10 at the moment -- except for the differences between  
11 Keewatin and Winnipeg -- it is one cent per hundred  
12 pounds per group?

13 THE WITNESS: Yes.

14 COMMISSIONER MANN: If you make an increase  
15 of 100 per cent from Keewatin to Winnipeg, the differen-  
16 tial becomes one cent, and all the other differentials  
17 between the groups, of course, increase to two cents  
18 and still maintaining the same cents per 100 pounds  
19 differential between the groups?

20 THE WITNESS: That is right.

21 COMMISSIONER MANN: If you then, having  
22 increased, Mr. Roberts, the rate 100 per cent, if you  
23 then could make another increase of 25 per cent over  
24 the then existing level, is it not correct that the  
25 differentials in cents per hundred pounds between the  
26 various groups becomes distorted?

27 THE WITNESS: That is looking into the future,  
28 Mr. Mann.

29 COMMISSIONER MANN: That is right.

30 THE WITNESS: Well, if that happens, sir,  
that there was by chance some time in the future allowed







1  
2 a 25 per cent increase; if you happened to get a 100  
3 per cent increase.---

4 COMMISSIONER MANN: We are going on assump-  
5 tions now.

6 THE WITNESS: That would happen, but there  
7 would be -- you would get away from the present relation-  
8 ship.

9 COMMISSIONER MANN: Any additional increase  
10 beyond this ---

11 THE WITNESS: In cents per 100 pounds, but  
12 each one would have received the same percentage in-  
13 crease.

14 COMMISSIONER MANN: I understand that, but,  
15 you see, what puzzles me a little bit, and this is  
16 where I would very much like you to clarify the matter  
17 for me, if it is so important to keep the many estab-  
18 lished groups, then it must be because there is an  
19 importance in keeping one group in the same relation-  
20 ship to the next, and that is presumably done by  
21 differentials in cents per hundred pounds. Would  
22 that be right?

23 THE WITNESS: Yes.

24 COMMISSIONER MANN: What puzzles me was that  
25 if the 100 per cent increase went on and then another  
26 increase beyond that went on, you would destroy this  
27 and you would not achieve your aim?

28 THE WITNESS: Well, that would happen in  
29 that instance, that would happen.

30 COMMISSIONER MANN: For instance, if you  
look at Swift Current, the rate from Swift Current to





1  
2 the lakehead is now 22 cents per 100 pounds as per  
3 Exhibit 88.

4 THE WITNESS: Yes.

5 COMMISSIONER MANN: The rate from Winnipeg  
6 to the lakehead is now 14 cents per 100 pounds?

7 THE WITNESS: Yes.

8 COMMISSIONER MANN: And the differential  
9 between Swift Current and Winnipeg is 8 cents per 100  
10 pounds?

11 THE WITNESS: Yes.

12 COMMISSIONER MANN: If you obtained a 100  
13 per cent increase, the differential between the two points  
14 would increase to 16 cents per 100 pounds?

15 THE WITNESS: The percentage relationship,  
16 sir, would be the same, though.

17 COMMISSIONER MANN: I understand that, but I  
18 am just referring to the differential. Then, an in-  
19 crease of 25 per cent beyond that would increase that  
20 differential to 20 cents between Swift Current and  
21 Winnipeg?

22 THE WITNESS: Yes.

23 COMMISSIONER MANN: So that you have an in-  
24 crease on that calculation in the differentials alone  
25 from 18 to 20 cents per 100 pounds?

26 THE WITNESS: That is right.

27 COMMISSIONER MANN: Now, would you think that  
28 would have any influence at all on the relationship as  
29 between the various groups which you want to maintain?

30 THE WITNESS: Well, it might conceivably in  
the marketing, Mr. Mann; it might conceivably in the  
marketing.







1  
2 COMMISSIONER MANN: Of course, we understand  
3 that under the proposal as made by Canadian Pacific  
4 this is at the moment an academic matter because the  
5 rates to the farmer were not increased?

6 THE WITNESS: That is right.

7 COMMISSIONER MANN: And this is at the moment?

8 THE WITNESS: Right.

9 COMMISSIONER MANN: Now, I have one more  
10 question, Mr. Roberts. On page 23 of your precis,  
11 you will note the table there, the rates shown, the  
12 American rates shown, are these commodity rates?

13 THE WITNESS: Yes.

14 COMMISSIONER MANN: In the York, North Dakota,  
15 to Duluth, are there no competitive rates at all?

16 THE WITNESS: No, sir, no.

17 COMMISSIONER MANN: So that all the American  
18 rates, Mr. Roberts, that you show here are the rates  
19 that actually move the traffic?

20 THE WITNESS: That is right; I say this, not  
21 of my knowledge, anyway, Mr. Mann.

22 COMMISSIONER MANN: Now, Mr. Roberts, I have  
23 a question on Volume No. 24 of the transcript, page 3503.  
24 There you discussed with Mr. Mauro the question of  
25 classification ratings, and Mr. Mauro asked you whether  
26 you can have any more than nine ratings, and I believe  
27 your answer was that you can't. It is page 3503,  
28 Volume 24, and it is about in the centre of the page,  
29 and you were referring to classification ratings when  
30 you say:

"You can't have more than the nine we have  
now?"





1  
2 THE WITNESS: Yes, that is right, sir.

3 COMMISSIONER MANN: What would prevent you,  
4 Mr. Roberts, from having additional ratings in the  
5 classifications now?

6 THE WITNESS: Well, to this extent, you  
7 would, I would say, Mr. Mann, in doing that be estab-  
8 lishing a commodity rating; that is what you have in  
9 mind. In other words, something lower than what is  
10 presently in effect. It could be done, but in doing  
11 that you would be extending possibly the single line  
12 basis to a two-line movement, and that would be --  
that wouldn't be necessary, in my opinion.

13 COMMISSIONER MANN: I understand the impli-  
14 cations, but what I wanted to know is that I got the  
15 impression it was legally impossible for you to have  
16 any more ratings than nine and that probably is not so.

17 THE WITNESS: No, that is not so.

18 COMMISSIONER MANN: On practical situations  
19 which make it advisable, you must have more than nine?

20 THE WITNESS: That is the answer.

21 COMMISSIONER MANN: One more question that  
22 came out of something you discussed with Mr. Blair a  
few minutes ago. You referred to trainload rates?

23 THE WITNESS: Yes.

24 COMMISSIONER MANN: I have, perhaps, mis-  
25 takenly understood that under the Railway Act trainload  
rates are not permissible; am I right or wrong?

26 THE WITNESS: Well, you have to charge the  
27 same rate for one car that you charge for ten cars,  
28 that is correct, but the railways did have in British  
29  
30







1  
2 Columbia, Mr. Mann, trainload rates on logs, and we  
3 also had rates -- when I say trainload, I mean ten  
4 cars or more -- we also had rates on gravel going into  
5 the Winnipeg area of 20 cars or more. Now, the gravel  
6 rates are gone; the log rates were permitted to remain  
7 in effect but to expire -- no new ones can come in--  
8 to expire when the limits ran out, but there is still  
9 the odd one in British Columbia.

10 COMMISSIONER MANN: But you are, under the  
11 the Railway Act now prohibited from making trainload  
12 rates?

13 THE WITNESS: That is right.

14 COMMISSIONER MANN: Thank you very much.

15 MR. SINCLAIR: I have just one question in re-  
16 examination for clarification, and it is for clarifica-  
17 tion on a point raised by Commissioner Mann.

18 RE-EXAMINATION BY MR. SINCLAIR:

19 Q. Mr. Roberts, if you decided that it is  
20 necessary to maintain a cents per hundred pounds differen-  
21 tial between groups, the only way you could do it, would  
22 it be correct to say, would be by applying a flat in-  
23 crease per hundred pounds to each rate applicable to  
24 improvement?

25 A. Yes, sir.

26 Q. And in so doing, would it be right to say,  
27 Mr. Roberts, that then you would distribute the pro-  
28 portion of relationships between the groups; for instance,  
29 Winnipeg being 14 cents and you put on 20 cents, you  
30 would make it 34 cents, and if you put it up 20 cents  
on a 25-cent rate, that makes it 45 cents, and the





1  
2 percentage relationship then is materially altered?

3 A. Yes, sir.

4 Q. But this is not involved in what we are  
5 proposing in respect to grain rates at all, is it?  
6 This is really dealing in another problem using the  
7 hypothetical grain rates for the discussion.

8 THE CHAIRMAN: I think he was talking about  
9 the problems of labour.

10 MR. SINCLAIR: I think we understand com-  
11 pletely what we are talking about; as I say, it is  
12 applicable to something else.

13 I think that is all I have got.

14 THE CHAIRMAN: Is there anything further?

15 Well, now, gentlemen, we will adjourn to  
16 Winnipeg on the 8th of February, and I understand that  
17 we are meeting at the Legislative Buildings.

18 ---Whereupon the hearing adjourned at 3.35 p.m.  
19 to resume at Winnipeg, Manitoba, on Monday,  
20 February 8th, 1960.  
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